



HM Treasury

Reforms to the tax treatment of red diesel and other rebated fuels: consultation

July 2020

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Chapter 1

Introduction

- 1.1 In June 2019, the UK became the first major economy in the world to pass laws guaranteeing an end to its contribution to global warming by 2050. The target will require the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least an 80% reduction from 1990 levels.
- 1.2 The government also launched in 2019 an ambitious new strategy to clean up the air and save lives, given air pollution is one of the biggest ongoing threats to public health in the UK. This comes on top of a commitment to halve the number of people living in areas exceeding World Health Organisation (WHO) guidelines on particulate matter by 2025, making the UK the first major economy to adopt air quality goals based on WHO recommendations, going far beyond European Union (EU) requirements.
- 1.3 The UK is still currently dealing with the impact of COVID-19, including the significant economic disruption it has caused. The government recognises the importance of a strong economy to support the transition to net zero and continue the UK's leadership in clean growth. That is why the government has announced unprecedented support for public services, workers and businesses to protect against the current economic emergency, including above £300 billion of guaranteed loans for supporting businesses to access finance.
- 1.4 The government continues to take its world-leading environmental commitments seriously and remains dedicated to meeting its climate change and wider environmental targets, including improving the UK's air quality. Budget 2020 reinforced the UK's strong track record in this area, with the government announcing £640 million for tree planting and peatland restoration, over £1 billion of further support for ultra-low emission vehicles, a new levy to fund a greener gas grid, at least doubling funding for energy innovation, and tax measures to reduce plastic waste. Moreover, the Plan for Jobs presented by the government yesterday announced a £3 billion green investment package, including £2 billion to support homeowners and landlords in making their homes more energy-efficient.
- 1.5 The government is also already taking action to reduce emissions of carbon dioxide (CO₂) and noxious gases from road traffic – for example, by consulting on bringing forward the phase out date for the sale of new petrol and diesel cars and vans from 2040 to 2035, or earlier if a faster transition is feasible.

Ensuring businesses pay for the harmful emissions they produce

- 1.6 For the government to reach its objectives, it also needs to ensure that the tax system incentivises users of polluting fuels like diesel to improve the energy efficiency of their vehicles and machinery, invest in cleaner alternatives, or just use less fuel.
- 1.7 This includes the tax treatment of red diesel, which is diesel used for off-road purposes, such as to power bulldozers and cranes in the construction industry or the refrigeration section of lorries. It is so-called because of the dye used to distinguish it from normal road fuel diesel. Red diesel accounts for around 15% of all the diesel used in the UK and is responsible for the production of nearly 14 million tonnes of CO₂ a year. Red diesel used in the construction and infrastructure building sectors was also estimated to have caused 7% of nitrogen oxide (NO_x) emissions and 8% of PM10 emissions (a type of particulate matter) in London in 2018.
- 1.8 Despite diesel being one of the most polluting fuels that vehicles and machinery can use, those entitled to use red diesel pay a duty rate of only 11.14 pence per litre (ppl), which is significantly less (46.81ppl) than those using standard road fuel diesel (duty rate of 57.95ppl). Businesses using red diesel are therefore paying far less for the harmful emissions they produce than individual car owners, even though the emissions produced from using one litre of diesel is broadly the same in both cases.
- 1.9 The government has previously received feedback from developers of alternative fuels and technologies that they view the low cost of running a diesel engine with red diesel as a barrier to entry for greener alternatives, whether these are powered by electricity, hybrid technologies or liquefied petroleum gas.

Budget 2020 announcement to remove red diesel entitlements from April 2022

- 1.10 At Budget 2020, the government therefore announced that it will remove the entitlement to use red diesel from most sectors from April 2022. This means that most businesses across the UK using diesel will need to use fuel taxed at the standard rate for diesel from April 2022, which more fairly reflects the negative environmental impact of the emissions they produce.
- 1.11 More expensive diesel should provide businesses with a much stronger incentive to improve the energy efficiency of their vehicles and machinery, look for more environmentally friendly alternatives, or just use less fuel. It should also act as a signal to manufacturers to design and sell new alternatives, thereby creating a more competitive market and consequently bringing down the price of these alternatives.
- 1.12 The government announced at Budget 2020 its intention not to change the entitlement to use red diesel from April 2022 for the agriculture sector (as well as forestry, horticulture and fish farming), in railways, and where red diesel is used to power non-commercial heating systems, such as in homes, narrowboats and places of worship.

- 1.13 The government recognises the continued importance of red diesel to the agricultural sector. In the rail sector, the removal of the red diesel entitlement for passenger or freight journeys risks creating perverse environmental outcomes, namely transferring rail freight or passengers to more polluting lorries, coaches and cars if costs rise. Finally, if applied to non-commercial heating, this would significantly increase the heating bills of households that use diesel, especially those in areas off the gas grid where there is no alternative, and including some which may be vulnerable.

Managing the impact of the tax changes

- 1.14 While reducing the use of red diesel is the right thing to do for the environment and for air quality, and makes sure that businesses pay fairly for the harmful emissions they produce, the government recognises that this will be a significant change for some businesses, and it is therefore taking steps to help manage the impact on those affected.
- 1.15 Firstly, businesses will have until April 2022 to prepare before any changes take effect.
- 1.16 Secondly, to support the development of alternative energy sources that these businesses can switch to, the government committed at Budget 2020 to at least doubling the size of the £500 million Energy Innovation Programme, accelerating the design and production of innovative clean energy technologies. The government has previously been informed by users of red diesel that the cost of alternative cleaner technologies is a barrier to switching to non-diesel-powered vehicles and machinery, so this investment will help bring cheaper alternatives to market sooner.
- 1.17 Finally, the government has also launched this consultation to make sure it has not overlooked any exceptional reasons why other sectors should be allowed to continue to use red diesel beyond April 2022. In assessing any claim made by a sector to retain their red diesel entitlement, the government will aim to balance a range of factors, including, but not limited to, the environmental rationale for the changes and the impact on prices of goods and services that households purchase.

What is the government consulting on?

- 1.18 Chapter 3 of this consultation provides information on red diesel, including on its current uses and existing tax treatment. It then sets out in more detail the specific changes announced at Budget 2020 to the tax treatment of red diesel, including the government's position on existing fuel duty reliefs and on public sector uses of red diesel. It also explains why the government is keeping the tax treatment of rebated biofuels aligned with red diesel.
- 1.19 Chapter 4 sets out why the government is not proposing to change the entitlement to use red diesel and rebated biofuels from April 2022 for the sectors and uses outlined in paragraph 1.12. It seeks views on whether the continued entitlement to use red diesel and rebated biofuels is justified for any other users.
- 1.20 Chapter 5 outlines the government's proposals for implementing the changes announced at Budget. It seeks views on proposals to introduce the

tax changes, and whether to mandate that fuel suppliers and end users of red diesel must flush out their tanks, pumps and fuel supplies. It also seeks views on whether the government's suggested approach to ensuring compliance is proportionate and appropriate, as well as setting out the specific implications for private pleasure craft.

- 1.21 Chapter 6 sets out the government's current assessment of what impacts the changes to the tax treatment of red diesel and rebated biofuels are expected to generate. It seeks views on whether these changes will generate any unintended impacts that have not been outlined in this consultation.
- 1.22 Chapter 7 sets out that the government is considering whether to revisit the tax treatment of other rebated fuels, such as non-aviation kerosene and fuel oil, to support its environment and air quality objectives. It seeks further information about the current end uses of these fuels.
- 1.23 Chapter 8 sets out the government's proposed next steps after this consultation closes.
- 1.24 This consultation aims to comply with the government's Consultation Principles, issued by the Cabinet Office. If you are not satisfied that this consultation has followed the Consultation Principles, or you have any other observations about how we can improve the process, please contact us via the complaints procedure.
- 1.25 During the consultation period, the government will also be gathering evidence through methods other than written responses to this consultation. In order to further inform the changes proposed, officials will engage directly with key stakeholders to explore the main issues involved.

How to respond

- 1.26 The deadline for responses to this consultation is 1 October 2020.
- 1.27 The best way to respond to this consultation is to complete the submission form that can be found on the following GOV.UK page:
<https://www.gov.uk/government/consultations/consultation-on-reforms-to-the-tax-treatment-of-red-diesel-and-other-rebated-fuels>
- 1.28 These responses should be sent by email to:
ETTAnswers@hmtreasury.gov.uk
- 1.29 Alternatively, representations by mail can be sent to:

Red diesel consultation

Energy and Transport Tax team

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

- 1.30 Any questions about the consultation can also be sent to:
ETTanswers@hmtreasury.gov.uk
- 1.31 Paper copies of this document or copies in Welsh and alternative formats may be obtained free of charge from the above address. This document can also be accessed from GOV.UK.
- 1.32 All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.
- 1.33 Where possible, please also provide evidence to support your responses. This consultation will inform future policy development. The government will set out its intentions once it has considered the responses received.

Processing of Personal Data

- 1.34 This notice sets out how HM Treasury will use your personal data for the purposes of this consultation and explains your rights under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA).

Your data (Data Subject Categories)

- 1.35 The personal information relates to either a member of the public, parliamentarians, and representatives of organisations or companies who respond to this consultation.

The data we collect (Data Categories)

- 1.36 For the purposes of the GDPR, we will process the information that you include in your correspondence, which may include your name, address, email address, phone number, job title, and employer of the correspondent, in addition to your opinions on the consultation. It is possible that respondents may volunteer additional identifying information about themselves or third parties.

Legal basis of processing

- 1.37 The processing is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in HM Treasury. For the purpose of this consultation the task is consulting on departmental policies or proposals or obtaining opinion data in order to develop good effective government policies.

Special categories data

- 1.38 Any of the categories of special category data may be processed if such data is volunteered by the respondent.

Legal basis for processing special category data

- 1.39 Where special category data is volunteered by you (the data subject), the legal basis relied upon for processing it is: the processing is necessary for reasons of substantial public interest for the exercise of a function of the Crown, a Minister of the Crown, or a government department.
- 1.40 This function is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

Purpose

- 1.41 The personal information is processed for the purpose of obtaining the opinions of members of the public and representatives of organisations and companies, about departmental policies, proposals, or generally to obtain public opinion data on an issue of public interest.

Who we share your responses with

- 1.42 Information provided in response to a consultation may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).
- 1.43 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence.
- 1.44 In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.
- 1.45 Where someone submits special category personal data or personal data about third parties, we will endeavour to delete that data before publication takes place.
- 1.46 Where information about respondents is not published, it may be shared with officials within other public bodies involved in this consultation process to assist us in developing the policies to which it relates. Examples of these public bodies appear at: <https://www.gov.uk/government/organisations>.
- 1.47 As the personal information is stored on our IT infrastructure, it will be accessible to our IT contractor, NTT. NTT will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we will hold your data (Retention)

- 1.48 Personal information in responses to consultations will generally be published and therefore retained indefinitely as a historic record under the Public Records Act 1958.
- 1.49 Personal information in responses that is not published will be retained for three calendar years after the consultation has concluded.

Your rights

- 1.50 You have the right to request information about how your personal data are processed and to request a copy of that personal data.
- 1.51 You have the right to request that any inaccuracies in your personal data are rectified without delay.

- 1.52 You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.
- 1.53 You have the right, in certain circumstances (for example, where accuracy is contested), to request that the processing of your personal data is restricted.
- 1.54 You have the right to object to the processing of your personal data where it is processed for direct marketing purposes.
- 1.55 You have the right to data portability, which allows your data to be copied or transferred from one IT environment to another.

How to submit a Data Subject Access Request (DSAR)

- 1.56 To request access to personal data that HM Treasury holds about you, contact:

HM Treasury Data Protection Unit
G11 Orange
1 Horse Guards Road
London
SW1A 2HQ
dsar@hmtreasury.gov.uk

Complaints

- 1.57 If you have any concerns about the use of your personal data, please contact us via this mailbox: privacy@hmtreasury.gov.uk.
- 1.58 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, the UK's independent regulator for data protection. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF
0303 123 1113
casework@ico.org.uk

- 1.59 Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

- 1.60 The data controller for any personal data collected as part of this consultation is HM Treasury, the contact details for which are:

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

London

020 7270 5000

public.enquiries@hmtreasury.gov.uk

- 1.61 The contact details for HM Treasury's Data Protection Officer (DPO) are:

The Data Protection Officer

Corporate Governance and Risk Assurance Team

Area 2/15

1 Horse Guards Road

London

SW1A 2HQ

London

privacy@hmtreasury.gov.uk

Chapter 2

About you

2.1 When replying to the consultation, please ensure that you answer the following questions:

- 1 What is your name?
- 2 What is your email address?
- 3 Which category in the following list best describes you? If you are replying on behalf of a business or representative organisation, please provide the name of the organisation/sector you represent, where your business(es) is located, and an approximate size/number of staff (where applicable).
 - Academic or research
 - Agriculture, forestry, horticulture and pisciculture
 - Airport operations
 - Charity or voluntary organisation
 - Chemical production
 - Construction, including plant and equipment hire
 - Electricity generation and portable generators
 - Fuel supplier (and if so, whether you are Registered Dealer in Controlled Oil)
 - Groundworks contractor
 - Haulage
 - Individual (including users of fuel for domestic purposes)
 - Logistics and freight
 - Manufacturing
 - Maritime or inland waterway vessel operator
 - Mining and quarrying
 - Non-governmental organisation
 - Oil and gas
 - Property manager or maintainer

- Public entertainment (e.g. funfairs and travelling circuses)
- Public sector
- Rail industry
- Waste oil processors
- Waste or water management
- Other (if so, please provide details)

4 Would you like your response to be confidential and, if so, why?

Chapter 3

Changes to the tax treatment of red diesel and rebated biofuels

What is red diesel?

- 3.1 “Red diesel” is the term used for gas oil, commonly known as diesel, when it is intended for use other than as fuel to propel road vehicles. Gas oil intended for use in diesel engine road vehicles (DERV), otherwise known as ‘white diesel’ (because it has no dye), has a fuel duty rate of 57.95 pence per litre (ppl). Red diesel is entitled to a rebate of 46.81ppl (an 81% discount), giving it an effective duty rate of 11.14ppl. On top of this, red diesel is subject to a reduced 5% rate of VAT for supplies up to 2,300 litres. For commercial supplies over 2,300 litres, the standard 20% VAT rate applies. Any supply of white diesel is VAT standard rated at 20%. The red diesel rate has remained constant at 11.14ppl since 2010 as a result of the 10-year freeze in the main diesel rate of fuel duty. Having a rebated rate for red diesel costs the Exchequer around £2.4 billion a year compared with the duty that would be collected if white diesel was used instead.
- 3.2 Given the duty difference between road and non-road use, a red dye (as well as other chemical markers) has been used to mark rebated diesel since 1961. The dye allows Her Majesty’s Revenue and Customs (HMRC) and other law enforcement agencies to check whether the right sort of diesel is being used and to prevent fuel fraud.
- 3.3 The markers are added to diesel not intended for road vehicles before it is released for consumption, and fuel duty is paid at the reduced rate by the producer or importer. Only fuel suppliers approved by HMRC under the Registered Dealers in Controlled Oil (RDCO) scheme may supply red diesel and other rebated fuels to consumers. These RDCOs are required to take all reasonable steps to only sell red diesel and other rebated fuels to legitimate users. They are also required to submit periodic returns to allow HMRC to track and analyse supplies of rebated fuel.

Current uses of red diesel

- 3.4 Almost all forms of non-road mobile machinery (NRMM) – such as aircraft tugs, bulldozers and tractors – are eligible to use red diesel, insofar as they operate off-road. A sample list of NRMM that are currently eligible to use red diesel is set out at Annex A.
- 3.5 In addition, red diesel usage is currently common in the following categories:

- heating (red diesel used for heating is also referred to as '35 second oil'). Such use has declined with the availability of natural gas but it is still used 'off-grid' for the heating of commercial and public sector premises, and in agriculture for heating animal sheds and processes such as drying grain, as well as for some household heating
- stationary engines – this includes static electricity generators, like those providing back-up power in many large commercial buildings
- mobile machinery – red diesel can be used to operate machinery mounted on road vehicles so long as the machinery is supplied from a separate tank, for example, transport refrigeration units. It is also used in mobile generating sets
- boats and ships – whether operating at sea or on inland waterways
- rail – such use has reduced with the electrification of the railways but not all passenger lines have been electrified. Freight trains mostly run on red diesel

3.6 It is against the law to use red diesel for the propulsion of road vehicles, but it can be used in 'excepted vehicles'. This includes unlicensed vehicles used exclusively on private property, such as some construction and airport vehicles. It also includes other categories of vehicles that can be used on the public road if certain design and/or use criteria are met. This concession reduces compliance burdens on businesses that employ off-road machinery which is not intended for use on the road, but which may unavoidably make incidental use of the road network. Examples of this are an agricultural tractor, or a works truck such as a forklift which can travel short distances on the road in defined circumstances.

3.7 In exceptional circumstances, HMRC issues 'Rebated Fuel Licences' to enable vehicles to use red diesel, provided the rebated amount of duty is repaid. Many of these licences cover vehicles routinely running on red diesel, with users declaring the duty difference only for the limited time the vehicle is used on road. To coincide with the tax changes in April 2022, HMRC will withdraw licences covering vehicles that will be required to use standard white diesel at all times.

Reliefs

3.8 Reliefs from fuel duty are offered on red diesel in certain circumstances, for instance:

- greenhouses growing eligible produce qualify for full relief under the horticultural producers' scheme. This relief allows the grower to reclaim all the duty paid on any diesel used to heat the building or structure used for the growth of horticultural produce
- under the Ship's Stores Relief or Marine Voyages Relief schemes, duty can be reclaimed on red diesel used at sea other than in a private pleasure craft

- where red diesel is used to generate electricity for supply through a licensed supplier, the duty can be reclaimed less any carbon price support payment due

International comparisons

- 3.9 The UK is not unique in offering a rebated fuel for off-road usage, but it applies some of the lowest duty rates in Europe. For example, the use of red diesel for heating in Italy is subject to a rate of over 30ppl.
- 3.10 Moreover, many countries apply a narrower scope of entitlements. For example, in Denmark, Germany, Italy and Portugal, the use of diesel in construction vehicles and machinery is subject to the standard road fuel diesel rate.
- 3.11 Bulgaria, the Netherlands and Slovakia have gone even further by removing all reduced rates, now taxing diesel at one rate regardless of its use.
- 3.12 Some countries outside the EU also allow the use of rebated fuel for some off-road usage. For example, rebated fuel is available in the United States and Canada for use in off-road vehicles such as farm tractors, heavy construction equipment and generators.

Budget 2020 changes to the tax treatment of red diesel

- 3.13 At Budget 2020, the government announced that it would remove the entitlement to use red diesel from April 2022, except for agriculture (as well as forestry, horticulture and pisciculture), rail and for non-commercial heating (including domestic heating).
- 3.14 This means that from April 2022, all businesses that have lost their entitlement to use red diesel will need to use white diesel instead or switch to cleaner alternatives. More information is provided in Chapter 5 on how these changes will be implemented. Organisations and individuals using white diesel will need to pay the standard 20% VAT rate, instead of the reduced 5% rate of VAT that red diesel supplies of up to 2,300 litres are subject to. VAT-registered businesses will be able to reclaim the VAT paid on the fuel purchased for use in their businesses.
- 3.15 The government does not propose changing any of the existing fuel duty reliefs which give specific sectors 100% relief on their fuel duty costs, even where these relate to the use of fuel by sectors which will no longer be entitled to use red diesel. Commercial boats undertaking journeys within the limits of a port or at sea, including ferries and fishing boats, will therefore remain entitled to the Marine Voyages Relief, whilst the General Lighthouse Authorities and the Royal National Lifeboat Institution will continue to benefit from full relief from fuel duty, even when they switch to using white diesel from 1 April 2022. They will, however, need to pay the standard 20% VAT rate that applies to white diesel.
- 3.16 To ensure that businesses using red diesel to generate electricity for supply through a licensed supplier can continue to reclaim the fuel duty, less any carbon price support payment due, once they have to use white diesel, the government proposes to amend the qualifying fuel definition accordingly.

- 3.17 The government also proposes that in remote areas benefitting from the rural fuel relief, the 5ppl discount will apply to all sales of white diesel, regardless of use.
- 3.18 The government recognises that these changes to the tax treatment of red diesel may affect some public sector bodies, such as local councils and the military, and will therefore engage with them closely as part of this consultation. While the changes are also designed to incentivise greater energy efficiency and the switch to more environmentally friendly alternatives in the public sector, the Treasury will discuss any spending pressures that arise in the public sector as part of the Comprehensive Spending Review scheduled for later this year. As set out in the policy costing document published alongside Budget 2020, the red diesel costing accounts for an increase in the overall resource spending envelope of £150 million per annum to account for the fact that part of the costs of the policy will fall upon the public sector.

Budget changes to the tax treatment of rebated biofuels

- 3.19 Biodiesel for non-road use and biodiesel blended with gas oil not for road fuel use are also currently subject to a rebated duty rate of 11.14ppl. Biodiesel is a liquid fuel that is produced from biomass or waste cooking oil which can act as a substitute for diesel. While biodiesel can in theory be used in the same way as conventional fossil diesel, its non-road use is currently very limited. This is partly because biodiesel can degrade some engines as the fuel deteriorates over time. The engines may therefore require more frequent maintenance, such as to unclog filters, and it makes it difficult to use this fuel in machinery that is only used seasonally.
- 3.20 The government announced at Budget 2020 that it would remove the application of reduced rates to biofuels from April 2022 in the same way as red diesel.
- 3.21 Specifically, this means that biodiesel for non-road use and biodiesel blended with gas oil not for road fuel use will also be subject to the standard biodiesel road fuel duty rate (currently 57.95 ppl), except for the sectors that will retain their entitlement to use red diesel from 1 April 2022. These changes will also apply to the use of biodiesel and biodiesel blended with gas oil for heating; commercial heating use will be subject to the standard biodiesel road fuel duty rate and non-commercial heating use will be subject to the rebated duty rate of 11.14ppl.
- 3.22 This is to ensure that the duty paid on diesel and biodiesel for non-road use remains aligned, as is the case for diesel intended for use in diesel engine road vehicles.
- 3.23 To be consistent with fuels produced from hydrocarbons, the government proposes to restrict the supply of rebated biodiesel to Registered Dealers in Controlled Oil and to require chemical markers to be added to it to distinguish it from biodiesel taxed at the road fuel duty rate.
- 3.24 Renewable biofuels deliver greenhouse gas savings as they are sourced from feedstocks that extract CO₂ from the atmosphere. To incentivise the use of these low carbon fuels and reduce emissions from fuel supplied for use in

transport, the government introduced the Renewable Transport Fuel Obligation (RTFO) in 2008. Under the RTFO, all road transport fossil fuel suppliers in the UK are required to show that a percentage of the total road and non-road mobile machinery fuels they supply comes from sustainable renewable energy sources. In 2020, 9.75% of all fuel supplied by fossil fuel companies is required to be renewable. Biofuels are currently blended with conventional petrol, diesel and natural gas in the UK. The RTFO will therefore continue to support rebated biofuels.

- 3.25 References to red diesel made in the rest of the consultation include rebated biodiesel.

Chapter 4

Sectors retaining entitlement to use red diesel

- 4.1 The government is removing the entitlement to use red diesel from most sectors from April 2022 so that the fuel they use is taxed at a rate that more fairly reflects the negative environmental impact of the emissions they produce. This will also incentivise businesses to improve the energy efficiency of their vehicles and machinery, invest in cleaner alternatives, or just use less fuel.
- 4.2 While this is the right thing to do for the environment and for air quality, the government is not proposing to change the entitlement to use red diesel for agriculture (as well as forestry, horticulture and pisciculture), rail and for non-commercial heating (including domestic heating) from April 2022.

Agriculture

- 4.3 The government recognises the continued importance of red diesel to the agricultural sector, so announced at Budget 2020 its intention not to change farmers' entitlement to use red diesel.
- 4.4 Given the entitlements to use red diesel in forestry, horticulture and pisciculture (i.e. fish farming) are closely connected to the entitlement to use red diesel in agriculture, the government announced that it intends to treat these three sectors in the same way.

Rail

- 4.5 The removal of the red diesel entitlement for passenger or freight journeys risks creating perverse environmental outcomes, namely transferring rail freight or passengers to more polluting lorries, coaches and cars if costs rise. For example, each tonne of freight transported by rail is estimated to reduce CO₂ emissions by 76 per cent compared with road transport.
- 4.6 The government is planning to review the entitlement for red diesel to be used in rail vehicles once alternatives become available that would avoid freight or passenger travel moving to more polluting road transport if costs were to rise.
- 4.7 The precise definition of what constitutes a rail vehicle will be included in the legislation covering the tax changes. However, the government's intention is that this will include diesel and diesel/electric hybrid locomotives and multiple units, as well as diesel shunters and specialist rail-mounted equipment, such as rail layers and ballast tampers.

Non-commercial heating (including domestic heating)

- 4.8 Currently, heating buildings accounts for around a fifth of the UK's emissions. To meet the government's net zero target, emissions from the heating of buildings will need to be significantly reduced by 2050, which involves switching to greener forms of heating.
- 4.9 However, if applied to non-commercial heating, this would significantly increase the heating bills of households that use diesel, especially those in areas off the gas grid where there is no alternative, and including some which may be vulnerable.
- 4.10 The government therefore announced its intention not to change the entitlement to use red diesel for domestic heating. It is instead committed to cutting emissions in a way that ensures a just transition across society, with the most vulnerable protected. The government will continue to evaluate the trade-offs between cost, competitiveness, effects on consumers and impacts on the taxpayer when supporting the transition to greener forms of heating.
- 4.11 For the heating of buildings used for other non-commercial purposes, such as places of worship and townhalls, the government intends to continue to allow the use of red diesel because removing the entitlement for such purposes would have a negative impact on local communities. The precise definition of what counts as non-commercial purposes will be included in the legislation covering the tax changes.
- 4.12 It is the government's intention that people whose primary, or often their only, place of residence is their boat (which has a permanent mooring), will remain entitled to use red diesel.
- 4.13 To support the transition to greener forms of heating and future-proof the UK's infrastructure, the Plan for Jobs presented by the government yesterday announced it would be providing over £2 billion to support homeowners and landlords in making their homes more energy-efficient. The government also announced it would invest £1 billion over the next year in a Public Sector Decarbonisation Scheme that will offer grants to public sector bodies, including schools and hospitals, to fund both energy efficiency and low carbon heat upgrades.
- 4.14 At Budget 2020, the government announced that it would invest a further £270 million into Green Heat Networks and introduce a new support scheme for biomethane to increase the proportion of green gas in the grid.
- 4.15 The deployment of renewable and low carbon heat is currently supported by the Renewable Heat Incentive. The government is consulting on a new Clean Heat Grant scheme, to provide grants to help households and small businesses invest in heat pumps and biomass boilers, backed by £100 million of new Exchequer funding. Moreover, a Future Homes Standard, to be introduced by 2025, will require new build homes to be future-proofed with low carbon heating and world leading levels of energy efficiency.

Existing reliefs

- 4.16 As set out in Chapter 3, the government does not propose changing any of the existing fuel duty reliefs which give specific sectors 100% relief on their

fuel duty costs, even where these relate to the use of fuel by sectors which will no longer be entitled to use red diesel.

- 4.17 For example, commercial boats undertaking journeys within the limits of a port or at sea, including ferries and fishing boats, will remain entitled to the Marine Voyages Relief, which gives them 100% relief on their fuel duty costs. They will therefore not have to pay more duty on their fuel, even when they start using white diesel from 1 April 2022.
- 4.18 They will, however, need to pay the standard 20% VAT rate that applies to white diesel instead of the reduced 5% rate of VAT that red diesel supplies of up to 2,300 litres are subject to. VAT-registered businesses will be able to reclaim the VAT paid on the fuel purchased for use in their businesses.
- 4.19 To ensure that businesses using red diesel to generate electricity for supply through a licensed supplier can continue to reclaim the fuel duty, less any carbon price support payment due, once they have to use white diesel, the government proposes to amend the qualifying fuel definition accordingly.

Sectors that will lose their entitlement to use red diesel

- 4.20 The government is seeking views from current users of red diesel that will be affected by these tax changes on whether they have exceptional reasons that would justify retaining their entitlement to use this fuel after April 2022.
- 4.21 In assessing any claim made by a sector to retain their red diesel entitlement, the government will draw on all the information received from stakeholders and will aim to balance a range of factors, including, but not limited to, the environmental rationale for the changes, and whether:
- removing the entitlement to use red diesel from their sector will create perverse environmental outcomes.
 - removing the entitlement to use red diesel from their sector will significantly impact prices of goods and services that households and voluntary organisations use or pay for over the long-term. For example, the government would like to explore whether there is a strong case for continued use by ferries carrying paid passengers on the UK's rivers and inland waterways, or for public entertainment – like funfairs and travelling circuses – as indicated in the Budget.
- 4.22 The government recognises that the removal of the entitlement to use red diesel will be a significant change for some businesses. It is therefore seeking information from affected users on the expected impact of these tax changes more widely.
- 4.23 Beyond ensuring that businesses use fuel that is taxed at a rate which more fairly reflects the harmful impact of the emissions they produce, the government believes that these tax changes will incentivise users of red diesel to improve the energy efficiency of their vehicles and machinery, invest in more environmentally friendly alternatives, or just use less fuel. It is therefore seeking information from stakeholders on what they expect the impacts will be of these changes on the environment and on air quality.

Questions

- 5 Will removing the entitlement to use red diesel in your sector create perverse environmental outcomes? If so, please explain how, providing relevant evidence.
- 6 Will removing the entitlement to use red diesel in your sector have an impact on the price of goods and services households and/or voluntary organisations use or pay for over the long-term? If so, please provide relevant evidence.
- 7 How will removing the entitlement to use red diesel in your sector impact your organisation? Please provide details on:
 - a) Your organisation/sector's current red diesel consumption and costs, including as a proportion of total costs, and broken down by different uses (i.e. what types of vehicles and machinery)
 - b) The operational and financial capacity of your organisation/sector to shift to alternatives to red diesel (specifying what these alternatives are)
 - c) The capacity of your organisation/sector to pass through costs down the supply chain
 - d) The capacity of your organisation/sector to absorb extra costs
- 8 What impact do you expect the removal of red diesel entitlements from most sectors will have on the environment and on air quality? Please provide any evidence you deem relevant.
- 9 Do you have any comments on the government's intention to maintain the entitlement to use red diesel for agriculture (as well as forestry, horticulture and pisciculture), rail and for non-commercial heating (including domestic heating) from April 2022?
- 10 The government is interested in gathering further information about the use of red diesel for heating. Please provide relevant evidence of your use of red diesel for this purpose, including on: i) the quantity and cost of the fuel; ii) where in the country the fuel is used (including whether you are on or off the gas grid); and iii) whether you consider that there are any viable alternative energy sources available to you.
- 11 Do the announced changes to the tax treatment of red diesel raise any concerns about the application of existing fuel duty reliefs? If so, please provide details on the relief and the issue that you believe will arise.

Chapter 5

Implementation and ensuring compliance

- 5.1 The government wants to design and implement these changes to the tax treatment of red diesel in a way that promotes compliance and prevents avoidance and evasion. Effective compliance must be proportionate and should not place undue burdens on businesses.

Introduction of changes

- 5.2 The government proposes to prohibit the use of red diesel in sectors that will lose their entitlement from 1 April 2022. The fuel used in breach of this prohibition will be liable for forfeiture, penalties and an offence may have been committed.
- 5.3 All rebated fuels, including red diesel, are supplied to users through a controlled supply chain, where there is oversight of both wholesale and retail suppliers. HMRC approve suppliers under the Registered Dealers in Controlled Oil (RDCO) scheme before the RDCO can supply rebated fuels, unless they only supply fuel in small pre-packaged containers of 20 litres or less.
- 5.4 HMRC will only grant approval where the applicant is assessed as being a fit and proper person to supply controlled oil. Approved suppliers are required to take reasonable steps to make sure that their customer is properly entitled to receive the fuel they are supplying.
- 5.5 These RDCOs will therefore be required to ensure that they do not supply more red diesel fuel before 1 April 2022 to sectors losing their entitlement than the RDCO has reason to believe may be used up by that date.
- 5.6 The government would welcome views on whether there are users of red diesel that will have already purchased fuel now that they do not expect to have used up by April 2022. In particular, the government would welcome views on how frequently static electricity generators providing back-up power to buildings are refuelled.

Ensuring compliance: fuel suppliers

- 5.7 The government expects that some fuel suppliers currently selling red diesel will switch to providing white diesel to sectors that have lost their entitlement.
- 5.8 However, the government understands that the chemical markers used to identify red diesel may remain in fuel tanks and pipes when these fuel

suppliers switch to white diesel. The government wants to minimise the risk that white diesel that has had the full duty rate paid on it is sold contaminated with the red diesel marker. This could lead to those that had legitimately purchased white diesel being found to have committed an offence as if they had misused red diesel.

- 5.9 To mitigate the risk of this issue materialising, the government proposes that any fuel suppliers that switch a fuel tank from red to white diesel, in anticipation of the introduction of the tax changes (or after it has taken place), will need to flush out the tank and pump until no trace of marked rebated fuel remains.
- 5.10 RDCOs that will no longer supply controlled oils as a result of these tax changes will be required to de-register from the RDCO scheme. This will result in a significant reduction in administrative burdens and subsequent cost savings for them. They will have 30 days from the date of de-registration to dispose of controlled oil stocks and must tell HMRC how they plan to do this, including the removal of marker traces in tanks being redeployed. As part of this, RDCOs that possess red diesel they do not believe they will sell to end users may sell the fuel to other RDCOs.
- 5.11 The fuel suppliers that switch only a few of their tanks from red diesel to white diesel, but still intend to supply controlled oils and remain a part of the RDCO scheme, will also be able to sell to other RDCOs any surplus red diesel that they do not believe they will sell to end users.
- 5.12 RDCO scheme guidance will be updated so that fuel suppliers know the process that they will need to abide by when switching some of their tanks from red to white diesel. This includes guidance on how to ensure that they dispose of any red diesel the fuel supplier has not sold in accordance with the relevant environmental regulations, although the government expects fuel suppliers to manage their stocks of red diesel to avoid fuel waste. Failure to abide by this guidance may result in removal from the RDCO scheme.
- 5.13 While the government recognises that flushing out fuel tanks and pumps will be a cost to the fuel suppliers that want to switch to providing more or only white diesel, the government believes this will significantly aid HMRC to ensure compliance and detect any misuse of red diesel. Not only will this protect revenue, but it will also help maintain a level playing field for compliant businesses.
- 5.14 As set out above, RDCOs will be required to take reasonable steps to make sure that all their customers are properly entitled to receive the fuel that is being supplied. More information will be included in RDCO scheme guidance to ensure RDCOs are clear on what steps they are required to take.
- 5.15 HMRC will work with fuel suppliers (including RDCOs) ahead of the introduction of the tax changes to ensure they understand what these steps are and are clear on what they may need to do in preparation. This includes communicating the changes with sufficient notice to all their customers that will lose their entitlement to use red diesel so that they avoid purchasing fuel that they will not be able to use up by April 2022.

Ensuring compliance: red diesel users

- 5.16 While the use of red diesel by users that have lost their entitlement will be illegal from 1 April 2022, the government realises that marker residue may still be detected in the fuel tanks of their vehicles and machinery, even after they have switched to using white diesel.
- 5.17 The government does not propose to mandate that users of red diesel have to flush out the tanks of their vehicles or machinery as this can be expensive. This approach also avoids damage to the environment that could arise from the unsupervised and unsafe disposal of red diesel.
- 5.18 The government believes that effective compliance must be proportionate and should not place undue burdens on businesses.
- 5.19 Users of vehicles and machinery that will lose their entitlement to use red diesel have until April 2022 to prepare before these changes take effect. The government therefore expects these users to ensure that they do not purchase red diesel for use from 1 April 2022 and run down their existing stocks of red diesel before that date (subject to determining whether any uses of red diesel should be treated differently following a review of the responses provided to Q12 on very infrequent purchases of red diesel).
- 5.20 In cases where HMRC compliance officers find that vehicles and machinery that have lost their entitlement still have some red diesel marker in their fuel supplies, these vehicles and machinery, as well as the fuel, would be liable to be seized. It is HMRC policy to take action if they consider that red diesel is being used illegally and an offence has been committed. However, the user of the vehicle or machinery would be able to appeal the liability if they believe they are still entitled to use red diesel.
- 5.21 The government proposes that HMRC's compliance officers would, as now, consider the particular circumstances of each case. If users are able to satisfy compliance officers, with sufficient evidence if requested, that the detected red diesel marker relates only to fuel legitimately put into the fuel supply of the vehicle or machinery prior to 1 April 2022 (i.e. that the vehicle or machinery has not been fuelled with red diesel after the law changed), then the government proposes that the vehicle or machinery would be restored to the owner at no cost, subject to conditions that will be set out in published guidance, and other enforcement action would not be taken.
- 5.22 HMRC will work with trade bodies representing sectors that will lose their entitlement to use red diesel ahead of the introduction of the tax changes to ensure they understand what these are and are clear on what their members will need to do in preparation. This includes working with the trade bodies to communicate the changes with sufficient notice to all their members so that they avoid purchasing fuel that they will not be able to use up by April 2022.

Ensuring compliance: HMRC enforcement powers and penalties

- 5.23 In order to ensure compliance with the changes to the tax treatment of red diesel, HMRC will rely on its existing compliance powers to administer fuel duty.

- 5.24 The government would welcome views from respondents on whether they believe there are specific compliance risks not already addressed in this chapter that could arise from these tax changes that may require bespoke compliance arrangements.
- 5.25 HMRC will work closely with fuel suppliers and users of red diesel to ensure that any compliance regime minimises the burden on compliant businesses, whilst providing important safeguards to tackle non-compliance, avoidance and evasion.
- 5.26 HMRC will minimise non-compliance by exploiting the information that it holds to identify risks as they arise. For example, under the RDCO scheme, fuel suppliers are required to make periodic returns of the controlled oils supplied to end users, so HMRC will be able to compare total volumes of red diesel reported as sold by RDCOs before and after the tax changes. This will make it easier to identify where more red diesel is supplied than HMRC would expect to see after the changes.
- 5.27 The government would welcome comments on what other powers are necessary to administer and enforce these tax changes.
- 5.28 Penalties are applied to encourage taxpayers to comply with their obligations, to act as a sanction for those who do not, and to reassure the compliant majority that they will not face unfair competition from those who do not follow the rules. The government does not use penalties as a primary way of raising revenue, or to offset running costs, but to improve compliance and ensure a level playing field.
- 5.29 The government would welcome views from respondents on whether there are any specific compliance risks that may require specific penalty or offence provisions.

Private pleasure craft

- 5.30 Private pleasure craft users are currently entitled to use red diesel for both propulsion and non-propulsion use, but they have to pay white diesel rates for the fuel used for propulsion.
- 5.31 At Budget 2020, the government announced that it would include enabling legislation in Finance Bill 2020 to prohibit the use of red diesel to propel private pleasure craft, with details on the implementation of this power to be set out in due course. This will achieve consistency with a 2018 judgment by the Court of Justice of the European Union (CJEU) and ensure the UK meets its international obligations. It will not change private pleasure craft users' entitlement to use red diesel for non-propulsion uses. The Bill is currently before Parliament.
- 5.32 Once the power is implemented, private pleasure craft users will need to use white diesel for propulsion instead of red diesel. This will not affect the fuel duty rate they pay on fuel used for propulsion since they are already paying the standard white diesel rate for this use of fuel.
- 5.33 However, implementing this judgment will create significant difficulties for some craft users and fuel suppliers according to the responses they provided

to the 2019 HMRC consultation on the use of diesel for propelling private pleasure craft. The government response to this consultation has also been published today, which includes a summary of responses.

- 5.34 The government is continuing to work with craft users and fuel suppliers to understand how they will implement the changes once they enter into force, taking account of the issues raised in last year's consultation. It also needs to understand what impact the wider changes to red diesel entitlements may have on implementing this change for private pleasure craft.
- 5.35 Following discussions with craft users and fuel suppliers during the consultation, the government will decide when to remove the entitlement to use red diesel for propulsion, and will set out further details in due course.
- 5.36 Regardless of when private pleasure craft users need to start using white diesel for propulsion, they will remain entitled to use red diesel for non-propulsion uses, such as for heating, and lighting and powering appliances such as fridges via a battery charged using red diesel (provided they have a separate fuel tank for this purpose). If they have only one fuel tank on board their craft, they will need to use white diesel.
- 5.37 As committed to at Budget 2020, the government has been exploring options to prevent users of private pleasure craft with only one fuel tank on board for propulsion and non-propulsion having to pay a higher rate of duty on their non-propulsion use of diesel than they currently pay.
- 5.38 The government is considering introducing a new relief scheme where approved fuel suppliers would be able to deduct from the sale price the duty difference on the proportion of white diesel intended for non-propulsion use. The fuel suppliers would then reclaim this deducted duty from HMRC and reflect this in the price charged to the private pleasure craft user at the point of sale.
- 5.39 Analysis by both the industry and HMRC previously suggested that a split of 60% for propulsion and 40% for non-propulsion use probably reflected most crafts' typical fuel use. The government would welcome views on whether this apportionment remains typical, with supporting evidence.
- 5.40 The government would also welcome views on whether the relief should be a fixed percentage or whether it should be capped at a maximum percentage. A fixed percentage would mean a written declaration from craft users of how they use their fuel would not be required and it should make it slightly easier for fuel suppliers to work out the duty that needs to be deducted from the sale price and compile all the claims for HMRC. A relief capped at a maximum percentage would allow craft users to more accurately reflect the amount of diesel they intend to use for non-propulsion. This would necessitate a written declaration from the craft user to the fuel supplier on how they intended to use each tank of fuel (which would need to be made available to HMRC on request), although craft users could lodge a standing declaration with any supplier where they were a regular customer to save them making new declarations each time they refuelled.
- 5.41 The government would welcome views on the overall approach and whether fuel suppliers foresee any difficulties with implementing this scheme. If the

government decides to proceed with the introduction of this relief scheme, more guidance on how it will work will be set out in due course.

- 5.42 It is the government's intention that people whose primary, or often their only, place of residence is their boat (which has a permanent mooring), will remain entitled to use red diesel. The government will set out what requirements these boat users need to provide to justify a continued use of red diesel, even if their craft has only one fuel tank.
- 5.43 The government believes that only a small proportion of private pleasure craft have a separate tank for non-propulsion use only. Given the small number of these craft, the government is minded to maintain their entitlement to use red diesel in the non-propulsion tank, but it will require them to use white diesel for propulsion use. If the government introduces the relief scheme set out above, these users will not be allowed to reclaim from their fuel supplier the duty differential between white and red diesel on the amount of red diesel used for non-propulsion, as this will already have benefited from the rebated rate of duty. However, if the relief scheme is introduced, those using white diesel in their non-propulsion tank will be able to reclaim the duty difference on the white diesel used for non-propulsion, as set out above.
- 5.44 Like for other end users of red diesel, the government does not propose to mandate that private pleasure craft users have to flush out their tanks to remove traces of red diesel when these changes come into force. However, it expects them to ensure that they do not purchase red diesel for use from the date that it is banned (except for a separate non-propulsion tank) and run down their existing stocks of red diesel before this date.
- 5.45 As set out above, HMRC will minimise non-compliance (such as over-declaring the amounts of fuel used for non-propulsion) by exploiting the information that it holds to identify risks as they arise. For example, HMRC will be able to compare how much fuel suppliers reclaim in deducted duty with the current amount that private pleasure craft users pay to their fuel suppliers on the proportion of red diesel they intend to use for propulsion.

Questions

- 12 Are there any circumstances where, despite nearly two years' notice, users of red diesel that will be losing their entitlement will have already purchased fuel that they do not expect to have used up by April 2022? If so, please provide evidence to explain why you do not expect to be able to manage your supplies so that you have used up all your red diesel by April 2022.
- 13 Do you agree with the government's suggested approach of mandating RDCOs that switch a fuel tank from red to white diesel in anticipation of the introduction of the tax changes to flush the tank and pump until no trace of marked rebated fuel remains? If you do not, please explain why.
- 14 If you are a fuel supplier, do you foresee any significant difficulties with the proposed arrangements for implementing the changes to the tax treatment of red diesel? If so, please explain why.

- 15 Do you agree with the government's suggested approach of not mandating users of red diesel that will lose their entitlement to flush out the fuel supplies of their vehicles and machinery? If you do not, please explain why.
- 16 If you are in a sector that will lose entitlement to use red diesel from April 2022, do you foresee any difficulties with the proposed arrangements for implementing the changes to the tax treatment of red diesel? If so, please explain why.
- 17 Is the government's suggested approach to compliance proportionate and appropriate? If not, please explain why and outline any scenarios that you anticipate may require bespoke compliance powers or penalties.
- 18 Do you agree with the government's suggested approach of introducing a new relief scheme where the fuel supplier would deduct from the sale price the duty difference on the proportion of white diesel purchased by private pleasure craft users for non-propulsion use? If you do not, please explain why and give details of an alternative that you believe would be better.
- 19 Do you consider that 60% for propulsion and 40% for non-propulsion use still reflects most crafts' typical fuel use? If not, and you are a private pleasure craft user, please provide evidence on your own use. If you are a fuel supplier, please provide evidence on the number of craft users that claim they use more than 40% of their fuel for non-propulsion use.
- 20 If the government decides to introduce a new relief scheme, do you consider that the relief should be set as a fixed percentage to reflect most crafts' use or capped at a maximum percentage, meaning that craft users that use less than the maximum for non-propulsion would claim back less? Please explain the reasons for your view.
- 21 If you are a fuel supplier selling fuel to private pleasure craft, do you foresee any difficulties with implementing the new relief scheme outlined above if the government decides to introduce it? If so, please explain why and whether the government could adapt the scheme to mitigate these difficulties.
- 22 Do you agree with the suggested approach for private pleasure craft with two fuel tanks (one for propulsion and a separate one for non-propulsion) to be allowed to continue to use red diesel in the non-propulsion tank where it can obtain it?

Chapter 6

Assessment of other impacts

- 6.1 The government wants to consider any other unintended impacts on others, whether individual consumers, local authorities or others.
- 6.2 The government has completed an initial impact assessment, with some impacts not covered in the main body of the consultation summarised in Annex B. It is not currently anticipated that this measure will have adverse impacts on any group with protected characteristics under the Equality Act 2010, but the government will continue to assess this during the policy development process.

Questions

- 23 Is there anything you have not already included in your response that you would like us to note about the impact of the changes to the tax treatment of red diesel, especially any potentially adverse impacts on groups with protected characteristics?

Chapter 7

Tax treatment of other rebated fuels – call for evidence

- 7.1 Beyond red diesel and rebated biodiesel, other fuels are currently subject to fuel duty at rebated rates for certain uses. This includes:
- a) Kerosene to be used as a motor fuel off road or in an excepted vehicle, subject to a rate of 11.14ppl
 - b) Kerosene used for heating, which is subject to a nil rate of fuel duty
 - c) Fuel oil, subject to a rate of 10.70ppl
 - d) Heavy oil other than fuel oil, gas oil or kerosene used as fuel, subject to a rate of 10.70ppl
- 7.2 All these types of heavy oil are very polluting, producing between 2.5 and 3.2 kilograms of CO₂ per litre consumed (similar to the 2.7 kilograms of CO₂ produced per litre of diesel consumed). This translates to around 15% and 25% more CO₂ produced than for the equivalent use of liquefied petroleum gas (LPG) and natural gas respectively. These heavy oils also produce noxious gases when used, including nitrogen oxides and particulate matter, both of which are hazardous to human health.
- 7.3 The government continues to take its world-leading environmental commitments seriously. It is therefore considering whether it should revisit the tax treatment of other rebated fuels in the future.
- 7.4 However, while the government is aware in broad terms of which industries are supplied with these fuels, it does not collect information from the users themselves.
- 7.5 Before taking any decisions on whether to revisit the tax treatment of these other rebated fuels, the government is therefore interested in gathering further information about the end use of these fuels. It is also asking stakeholders to share any further information they believe could help the government reach a decision on whether to reconsider the tax treatment of these fuels.
- 7.6 When reviewing the tax treatment of these other rebated fuels, the government will want to consider how this interacts with the tax treatment of other fuels that are used for heating and in non-road mobile machinery. Specifically, the government is interested in gathering information about the end use of LPG and natural gas, which are currently liable to the Climate

Change Levy when used for business and public sector heating. They are liable to fuel duty when they are to be used as fuel for a vehicle.

Questions

- 24 The government is interested in gathering further information about the end use of non-aviation kerosene, fuel oil, other heavy oils, LPG and natural gas. Please provide relevant evidence on usage of these fuels, particularly in relation to:
- a) the purpose and type of use, such as business, public sector or domestic. Where the fuel is used as motor fuel, it would be useful to know what types of machinery, including excepted vehicles, it is used to power and what they are used for
 - b) the quantity and cost of the fuel used
 - c) where in the country these fuels are used (including whether they are on or off the gas grid)
 - d) whether you consider that there are any viable alternative fuels available to you to power such machinery, including excepted vehicles, or equipment.

If you know your Standard Industrial Classification code, please also provide this.

You are invited to provide any evidence you deem relevant to this call for evidence, not limited to the information requested.

- 25 Is there any other information that you wish to highlight to help the government reach a decision on whether to reconsider the tax treatment of these other rebated fuels?
- 26 If you believe the tax treatment of these other rebated fuels should be reconsidered, do you have any suggestions for how it could be reformed and implemented? Please provide any evidence you deem relevant and consider how this would interact with the changes to the tax treatment to red diesel, both in terms of which sectors the changes would affect (Chapter 4) and how the changes would be implemented (Chapter 5).

Chapter 8

Next steps

- 8.1 After the consultation closes on 1 October 2020, the government will analyse the responses received.
- 8.2 The government intends to publish a summary of responses within 12 weeks of closing and will set out next steps later this year once it has considered the responses in detail.
- 8.3 HMRC will publish draft legislation for consultation in 2021.

Chapter 9

Summary of questions

9.1 Below is a summary of all the questions and data requests on the reforms to the tax treatment of red diesel and other rebated fuels.

- 1 What is your name?
- 2 What is your email address?
- 3 Which category in the following list best describes you? If you are replying on behalf of a business or representative organisation, please provide the name of the organisation/sector you represent, where your business(es) is located, and an approximate size/number of staff (where applicable).
 - Academic or research
 - Agriculture, forestry, horticulture and pisciculture
 - Airport operations
 - Charity or voluntary organisation
 - Chemical production
 - Construction, including plant and equipment hire
 - Electricity generation and portable generators
 - Fuel supplier (and if so, whether you are Registered Dealer in Controlled Oil)
 - Groundworks contractor
 - Haulage
 - Individual (including users of fuel for domestic purposes)
 - Logistics and freight
 - Manufacturing
 - Maritime or inland waterway vessel operator
 - Mining and quarrying
 - Non-governmental organisation
 - Oil and gas
 - Property manager or maintainer

- Public entertainment (e.g. funfairs and travelling circuses)
 - Public sector
 - Rail industry
 - Waste oil processors
 - Waste or water management
 - Other (if so, please provide details)
- 4 Would you like your response to be confidential and, if so, why?
 - 5 Will removing the entitlement to use red diesel in your sector create perverse environmental outcomes? If so, please explain how, providing relevant evidence.
 - 6 Will removing the entitlement to use red diesel in your sector have an impact on the price of goods and services households and/or voluntary organisations use or pay for over the long-term? If so, please provide relevant evidence.
 - 7 How will removing the entitlement to use red diesel in your sector impact your organisation? Please provide details on:
 - a) Your organisation/sector's current red diesel consumption and costs, including as a proportion of total costs, and broken down by different uses (i.e. what types of vehicles and machinery)
 - b) The operational and financial capacity of your organisation/sector to shift to alternatives to red diesel (specifying what these alternatives are)
 - c) The capacity of your organisation/sector to pass through costs down the supply chain
 - d) The capacity of your organisation/sector to absorb extra costs
 - 8 What impact do you expect the removal of red diesel entitlements from most sectors will have on the environment and on air quality? Please provide any evidence you deem relevant.
 - 9 Do you have any comments on the government's intention to maintain the entitlement to use red diesel for agriculture (as well as forestry, horticulture and pisciculture), rail and for non-commercial heating (including domestic heating) from April 2022?
 - 10 The government is interested in gathering further information about the use of red diesel for heating. Please provide relevant evidence of your use of red diesel for this purpose, including on: i) the quantity and cost of the fuel; ii) where in the country the fuel is used (including whether you are on or off the gas grid); and iii) whether you consider that there are any viable alternative energy sources available to you.
 - 11 Do the announced changes to the tax treatment of red diesel raise any concerns about the application of existing fuel duty reliefs? If so, please provide details on the relief and the issue that you believe will arise.

- 12 Are there any circumstances where, despite nearly two years' notice, users of red diesel that will be losing their entitlement will have already purchased fuel that they do not expect to have used up by April 2022? If so, please provide evidence to explain why you do not expect to be able to manage your supplies so that you have used up all your red diesel by April 2022.
- 13 Do you agree with the government's suggested approach of mandating RDCOs that switch a fuel tank from red to white diesel in anticipation of the introduction of the tax changes to flush the tank and pump until no trace of marked rebated fuel remains? If you do not, please explain why.
- 14 If you are a fuel supplier, do you foresee any significant difficulties with the proposed arrangements for implementing the changes to the tax treatment of red diesel? If so, please explain why.
- 15 Do you agree with the government's suggested approach of not mandating users of red diesel that will lose their entitlement to flush out the fuel supplies of their vehicles and machinery? If you do not, please explain why.
- 16 If you are in a sector that will lose entitlement to use red diesel from April 2022, do you foresee any difficulties with the proposed arrangements for implementing the changes to the tax treatment of red diesel? If so, please explain why.
- 17 Is the government's suggested approach to compliance proportionate and appropriate? If not, please explain why and outline any scenarios that you anticipate may require bespoke compliance powers or penalties.
- 18 Do you agree with the government's suggested approach of introducing a new relief scheme where the fuel supplier would deduct from the sale price the duty difference on the proportion of white diesel purchased by private pleasure craft users for non-propulsion use? If you do not, please explain why and give details of an alternative that you believe would be better.
- 19 Do you consider that 60% for propulsion and 40% for non-propulsion use still reflects most crafts' typical fuel use? If not, and you are a private pleasure craft user, please provide evidence on your own use. If you are a fuel supplier, please provide evidence on the number of craft users that claim they use more than 40% of their fuel for non-propulsion use.
- 20 If the government decides to introduce a new relief scheme, do you consider that the relief should be set as a fixed percentage to reflect most crafts' use or capped at a maximum percentage, meaning that craft users that use less than the maximum for non-propulsion would claim back less? Please explain the reasons for your view.
- 21 If you are a fuel supplier selling fuel to private pleasure craft, do you foresee any difficulties with implementing the new relief scheme outlined above if the government decides to introduce it? If so, please explain why and whether the government could adapt the scheme to mitigate these difficulties.

- 22 Do you agree with the suggested approach for private pleasure craft with two fuel tanks (one for propulsion and a separate one for non-propulsion) to be allowed to continue to use red diesel in the non-propulsion tank where it can obtain it?
- 23 Is there anything you have not already included in your response that you would like us to note about the impact of the changes to the tax treatment of red diesel, especially any potentially adverse impacts on groups with protected characteristics?
- 24 The government is interested in gathering further information about the end use of non-aviation kerosene, fuel oil, other heavy oils, LPG and natural gas. Please provide relevant evidence on usage of these fuels, particularly in relation to:
- a) the purpose and type of use, such as business, public sector or domestic. Where the fuel is used as motor fuel, it would be useful to know what types of machinery, including excepted vehicles, it is used to power and what they are used for
 - b) the quantity and cost of the fuel used
 - c) where in the country these fuels are used (including whether they are on or off the gas grid)
 - d) whether you consider that there are any viable alternative fuels available to you to power such machinery, including excepted vehicles, or equipment.

If you know your Standard Industrial Classification code, please also provide this.

You are invited to provide any evidence you deem relevant to this call for evidence, not limited to the information requested.

- 25 Is there any other information that you wish to highlight to help the government reach a decision on whether to reconsider the tax treatment of these other rebated fuels?
- 26 If you believe the tax treatment of these other rebated fuels should be reconsidered, do you have any suggestions for how it could be reformed and implemented? Please provide any evidence you deem relevant and consider how this would interact with the changes to the tax treatment to red diesel, both in terms of which sectors the changes would affect (Chapter 4) and how the changes would be implemented (Chapter 5).

Annex A

Main current uses of red diesel

Non-road mobile machinery using red diesel

Agricultural and horticultural –

includes tractors, combines, shredders, etc

Airport operations –

includes aircraft tugs, stairs, luggage conveyor belts, etc

Construction, incl. plant-and equipment hire –

includes rough terrain forklifts, access platforms, welding equipment, air/gas compressors, wheeled loaders, industrial tractors (not for agricultural purposes), cranes, concrete pavers, surfacing equipment, concrete saws, crawler tractors, asphalt pavers, paving equipment, bore/drill rigs, skid-steer loaders, crushing/processing equipment, tracked loaders, graders, scrapers

Forestry –

includes wood chippers, stump grinders, etc

Groundworks contractors –

includes backhoe loaders, mini excavators, wheeled excavators, crawler excavators, rigid dump trucks, articulated dump trucks, bulldozers, etc

Haulage –

auxiliary power plants, e.g. providing refrigeration or driving a concrete mixing drum

Logistics and freight –

ports, rail terminals, other sites handling shipping containers; distribution hubs

Machinery installers –

e.g. installers of manufacturing plant or electrical turbines

Manufacturing –

when 'works trucks' cart materials around a site

Maritime & inland waterway vessel operators

Oil and gas extraction –

drills and pumps

Portable generators –

providing onsite power for outdoor events, street market traders, funfairs, construction sites etc. Please split your response into portable generators 5-100kW, portable generators 100-1000kW and portable generators over 1000kW

Property managers and maintainers –

grass mowing and using elevating work platforms

Quarrying and mining –

Cement and plaster rock crushers, drills, hammer mills, furnaces

Rail industry –

motive power for freight and passenger trains

Waste handling and recycling

Annex B

Initial impact assessment

Summary of impacts not already mentioned in the consultation

Impact	Summary					
Exchequer impact (£m)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	-	-	+15	+1,575	+1,640	+1,645
	<p>These figures are set out in Table 2.1 of Budget 2020 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Spring Budget 2020.</p>					
Economic impact	This measure is not expected to have any significant macroeconomic impacts.					
Impact on individuals, households and families	<p>The measure is expected to mainly affect businesses as they are the main users of red diesel that will be losing their entitlement.</p> <p>The only individuals that the government expects may be affected by this measure are private pleasure craft users that will need to pay the standard 20% VAT rate on the white diesel they purchase for propulsion use, instead of the reduced 5% rate of VAT that red diesel supplies of up to 2,300 litres are subject to.</p> <p>This measure is not expected to have an impact on family formation, stability or breakdown.</p>					
Equalities impact	This measure is not expected to have adverse impacts on any group with protected characteristics under the Equality Act 2010.					
HMRC operational impact	There are no significant operational impacts for HMRC. The reduction in legitimate red diesel usage by around 75% should reduce the level of illegitimate use of red diesel overall because it will be harder to obtain this for deliberate misuse in road vehicles. This measure may lead to a switch between different fuel frauds, in which case HMRC will reprioritise existing resources.					

HM Treasury contacts

This document can be downloaded from www.gov.uk

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