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Motorists to pay an extra £386 million a year as result of 'stealth' insurance tax increase

This weekend's increase in insurance premium tax from 6% to 9.5% is due to cost motorists an extra £386m¹ a year, taking their insurance tax contribution to over £1bn¹ for the first time.

RAC analysis of industry figures reveals that the tax hike – which comes into effect on Sunday (1 November 2015) – is yet another burden on motorists who already contribute over £40bn in motoring taxation every year.

While the rise in insurance premium tax will force up the cost of the vast majority of insurance policies, it is expected to hit motorists hard as they are currently paying around £11bn¹ a year to be able to drive legally. As a result motorists contribute about a fifth of the total £3bn² insurance premium tax collected by the Treasury in 2014.

The IPT tax hike, announced in the Chancellor's Summer Budget in July 2015, will add £12.80 to an average annual car insurance premium of £367¹. And, with the price of car insurance rising at its fastest rate for five years this will be doubly bad for the country's 30m drivers¹.

But the RAC is also warning that the situation will be especially hard on young drivers and those new to motoring who face far higher premiums, significantly raising the bar for anyone starting driving for the first time.

Young drivers aged 25 and under pay an average of £810³ a year for their insurance with 18 to 20-year-olds paying £972³ a year. The insurance premium tax (IPT) rise would take their next renewals to £838 and £1,006 – increases of £28 and £34 respectively.

In terms of overall motoring taxation, a typical driver who fills up an average 55-litre car with diesel twice a month, will now pay in the region of £1,200⁴ a year to the Treasury including fuel duty, VAT paid on every litre of fuel bought, annual car tax (Vehicle Excise Duty) and IPT.

Motorists' annual tax contribution – how it all adds up

| Tax | Description | Motorists' total contribution in 2014* |
|------------------------------|--|---|
| Fuel duty | 57.95p paid on every litre of fuel bought | £26.4bn |
| VAT on fuel | 20% of all automotive fuel sales | £6.3bn |
| Vehicle Excise Duty | Paid every year according to a vehicle's CO2 emissions | £5.9bn |
| Insurance Premium Tax | Forms part of the cost of motor insurance | £624m |

The RAC therefore believes the IPT increase unreasonably adds to the tax burden felt by all motorists in the UK, and especially those who are new to

driving.

RAC Insurance director Mark Godfrey said: “Insurance is – rightly – mandatory for anyone getting behind the wheel. The 3.5% hike in IPT is another stealth tax like fuel duty that has unreasonably added to the already considerable contribution made to the Treasury by motorists. With insurance premiums currently going up faster than they have in the last five years, it’s sadly going to be a double whammy of bad news for the motorist.

“What’s more, these changes significantly raise the bar for anyone wanting to start driving for the first time. Young drivers tell us that the cost of insurance is the biggest barrier to them owning and running a car after passing their test. Sixty-two per cent of young drivers surveyed by the RAC felt this was the case as opposed to 22% who felt it was buying a car and 12% who cited day-to-day running costs.”

To help offset the increase, which will also be felt by consumers buying the vast majority of other insurance products, the RAC is encouraging new motorists to consider a ‘black box’ car insurance policy – which uses telematics technology to base future premiums on an individual motorist’s actual driving, something that is in the hands of the driver to control.

Mark Godfrey added: “Even though the IPT hike is being forced on motorists those starting their driving careers can have some influence over their future premiums by choosing a black box-based insurance policy. This uses telematics technology to understand how a driver behaves, with the potential to reward them with lower premiums.”

The RAC has also discovered just how low awareness of the imminent IPT increase is with eight out of 10 motorists (80%) surveyed saying they did not know a change was planned.

Notes to Editors

¹ The average UK car insurance premium is £367 according to the Association of British Insurers’ Key Facts 2015 data. 30m car drivers – DfT Q2 2015 equates to £11bn (inc IPT) spent on car insurance. £11bn plus 3.5% IPT rise equals £386m. Current IPT contribution of £624m plus £386m equals £1bn

² HMRC receipts September 2015 – £2,965m

³ Association of British Insurers age data, 2 July 2015

✕ Based on a private motorist owning and running a diesel car, VED band D, filling up a 55-litre tank twice per month and paying average annual insurance premium of £367. Tax made up of: £36 (IPT), £1,008 (fuel duty and VAT based on diesel at 110p per litre), £110 (annual VED for a band D car, non-direct debit)

✕ Research carried out on behalf of RAC Insurance by ICM Unlimited in September 2015 with 500 17 to 24-year-olds – 150 learner drivers and 350 qualified drivers.

✕ RAC Opinion Panel online survey 24-30 September 2015 conducted with 2,800 motorists

About RAC Insurance

The RAC has provided insurance services for its members since the early days of motoring. Today, RAC Insurance offers a suite of products to its customers including insurance for car, home, motorbike, van, personal accident and travel, along with other niche products aimed at personal and business customers.

In 2014, RAC Insurance generated more 33m quotes while seven out of 10 customers chose to renew their insurance with the RAC.

RAC Car Insurance provides customers with great value insurance by searching a panel of carefully selected insurers to get the best possible prices. Over the years it has won numerous awards and currently holds Defaqto 5 Star status.

In line with the RAC's mission to be the motorist's champion, a multicar insurance product was launched in 2015 together with RAC Learner Driver insurance which aims to cut the cost of learning to drive for young or new drivers.

For more information visit [RAC Insurance](#)

About the RAC

With more than eight million members, the RAC is one of the UK's most progressive motoring organisations, providing services for both private and business motorists. Whether it's roadside assistance, insurance, buying a used car, vehicle inspections and checks, legal services or up-to-the-minute traffic and travel information – the RAC offers a solution for all motoring needs. The RAC is committed to making motoring easier, safer, more affordable and more enjoyable for drivers and road users.

The RAC is the motorist's champion and campaigns to support the interests of its members and UK motorists at a national level, including advancing levels of road safety, supporting the needs of young drivers and voicing concerns about the increasing cost of motoring. The RAC's annual [Report on Motoring](#) – first published in 1989 – provides a clear insight into the concerns and issues facing today's motorists.

For the very latest news on UK fuel prices, check [RAC Fuel Watch](#) or follow [#racfuelwatch on Twitter](#). RAC Fuel Watch is a comprehensive guide to the latest UK unleaded petrol and diesel prices – both at the wholesale level and at the pump. RAC Fuel Watch analyses how prices changed through the previous month and compares the most recent prices with those from three, six and 12 months before.

The RAC supports and is a founding member of [FairFuelUK](#) which campaigns for fairer taxes on petrol and diesel.

Key facts:

- RAC patrols fix four out of five vehicles at the roadside and on average within 34 minutes
- RAC vans carry more than 500 parts and tools to get members' vehicles going again
- 98% of members would recommend RAC Rescue to their friends and family

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