Regulatory Impact Statement: An Increase in Annual Motor Vehicle Licence Fees

Coversheet

Purpose of Document	
Decision sought:	Confirmation (or otherwise) of proposal to increase annual vehicle licence fees, as per the draft Government Policy Statement on land transport 2024 (draft GPS 2024).
Advising agencies:	Te Manatū Waka Ministry of Transport
Proposing Ministers:	Minister of Transport, Minister of Finance
Date finalised:	May 2024

Problem Definition

Additional revenue is necessary to implement the Government Policy Statement on land transport 2024 (GPS 2024). The main transport revenue tools of Fuel Excise Duty (FED) and Road User Charges (RUC) will increase from 2027. Providing extra transport revenue in the shorter term is also required to reduce the need for further Crown grants to sustain the level of investment committed to in GPS 2024.

Executive Summary

The draft GPS 2024 proposed changes to annual vehicle licence fees, to contribute to the funding required to deliver transport infrastructure investment.

Vehicle licence fees are a portion of the overall annual cost required to operate a vehicle on the network. Funding from the collection of fees is provided to the National Land Transport Fund (NLTF). For most vehicles, the annual fee is $43.50. This rate has not changed since 1994, although the Accident Compensation Corporation (ACC) and administration fee portions of the overall cost to licence a vehicle have varied over the years. Vehicle licence fees provide the bulk of revenue collected as part of various Motor Vehicle Registration (MVR) charges.

The draft GPS 2024 proposes a $50 increase to the standard rate (in steps of $25 over two years), and an equivalent percentage increase to each of the other rates listed in the regulations for licence fees. The rationale for this level of increase is to raise the rates to what they would be (more or less) if adjusted for inflation since 1994.

To understand, investigate and weigh up different approaches, the following options are considered in this analysis:

1. Option One: keeping the annual vehicle license fees at the current rate and raise additional revenue by increasing the rates of FED and RUC (as traditionally done).
2. Option Two: A phased $50 increase over two years as per the draft GPS 2024 - $25 increase each year (or percentage equivalent for other specific vehicle rates).
3. Option Three: A one-off fee increase of $50 for most vehicles (with an equivalent 115 percent increase for other specific vehicle rates).

Option three, an increase of $50 for most vehicles (and equivalent proportionate increase for other fees) would add nearly $300 million per annum to the NLTF, with approximately $744 million added over three years 2024-25 to 2026-27. Option two, to phase in these changes, would result in approximately $150 million less in the first two years, but may make it easier for vehicle owners to adapt to the increased costs. On balance a phased approach is the preferred option.

Given that vehicle licence fees are a flat rate for any owner, regardless of how much they drive, there is a regressive nature to this type of fee. This means it has a greater adverse impact on low-income households than it does on the financially better off. The impact of increasing annual licence fees will be felt differently by different households and businesses. For some an increase will be easily absorbed, but for lower income households there may be a significant cost when the time comes to re-licence their vehicle.

The proposed increase is unlikely to generate significant transport behaviour changes, given the inelasticity of travel for most households, the strong need and/or desire for private vehicles and the flat nature of this fee. Specific details about the distributional impacts and other potential changes to travel patterns stemming from these options cannot be easily modelled, so some data and information has been provided to give context and qualitative analysis on the potential impact of the proposed increases instead.

Limitations and Constraints on analysis

The option to increase vehicle license fees was signalled by the Minister of Transport in the process of drafting GPS 2024. The scope of the options here is therefore limited to the annual vehicle license fee, and not to other to similar fees and charges, such as the initial vehicle registration fee.

Other potential revenue-raising tools are also not considered in detail in this analysis. The government's commitment not to increase FED and RUC until 2027 also shapes the scope of options presented, though analysing these tools does provide a useful comparison – so they have been included as the first option.

Tight timeframes for this work have presented limitations to undertake broad consultation and stakeholder engagement. Best efforts have been made to consult on the proposal to increase licence fees as part of wider public consultation on the draft GPS 2024. Feedback was also received from New Zealand Transport Agency Waka Kotahi (NZTA) as part of the draft GPS 2024 process.

Analysing the impacts on different parts of the New Zealand population has relied on more general analysis and the use of available data. The proposed increase to vehicle licence fees is not a significant enough change in itself to be able to draw out specific results in agent-based impact modelling, so this approach has not been taken. As such the data and evidence used for understanding the impacts of this change are limited. Fleet statistics and other material is provided to give as much context as possible for this decision, even though specific impacts are hard to identify and quantify.

Responsible Manager

Matt Skinner, Manager Revenue

Te Manatū Waka, Ministry of Transport

10 May 2024

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Te Manatū Waka, Ministry of Transport
Panel Assessment & Comment:	This Regulatory Impact Statement (RIS) has been reviewed by a panel of representatives from the Ministry of Transport. It has been given a ‘partially meets’ rating against the quality assurance criteria for the purpose of informing Cabinet decisions. The statement is clear and relatively concise, but there is limited evidence about the impacts of the proposals and limited consultation has been undertaken within the wider GPS 2024 process. The Panel considers that this statement provides a sufficient basis for informed decisions on the current proposal, however the Ministry should be looking to strengthen the evidence base about the potential impacts to inform future decisions on the long-term design of the land transport revenue system.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. New Zealand's land transport revenue system is primarily funded by fuel excise duty (FED) and road user charges (RUC). The funding collected as part of motor vehicle registration (MVR) and licencing have been a comparatively minor, but not insignificant, revenue source. Net MVR revenue for 2022/23 was $236 million, around 8 percent of the total net revenue collected for the National Land Transport Fund.[1]

2. The draft GPS 2024 sets out a significant investment programme to address New Zealand's transport infrastructure deficit, with $20.4 billion of investment expected over 2024-27. Forecast revenue from user charges over the next three years is $13.1 billion, leaving a $7.3 billion revenue gap if the government is to deliver already committed investments and the new projects identified. The government has undertaken not to increase FED and RUC rates in the current term, and therefore extra revenue is required in the interim to meet the expenditure commitments in the draft GPS 2024.

3. Under current settings, a significant operating grant would likely be required from the Crown to meet the anticipated expenses over the 2024/25-2027/28 period – to meet the $7.3 billion gap. The draft GPS 2024 proposes MVR revenue increases as part of an alternative package to support the investment. This will provide the revenue stream required for the repayment of loan facilities and reduce the need for a further operating grant. The proposed revenue package for implementation of GPS 2024 involves:

    a. Increasing MVR annual licence fees.

    b. A 12 cent, 6 cent and then annual ongoing 4 cent per litre increase in FED and RUC equivalent in 2027, 2028 and 2029 respectively. While this revenue does not kick in until later, it does enable increased borrowing in the shorter term.

    c. A Crown capital grant of $3.14 billion.

    d. A Crown loan of $3.08 billion to bring forward expenditure over the next three years.

4. Longer term, the draft GPS 2024 signals this Government's intentions to reform the land transport revenue system. Plans include moving all road vehicles from FED to RUC, changes to tolling legislation, enabling time-of-use charging to address congestion and unlocking other revenue tools such as value capture and increased use of private financing. These revenue options will take longer to explore and implement, given the level of legislative and practical changes required.

What is the policy opportunity?

MVR fees are an appropriate and relatively simple revenue option

5. Motor Vehicle Registration (MVR) revenue describes the collective revenue received from fees and charges relating to initial vehicle registration, annual licensing and

[1] The admin fees collected directly for NZTA functions and the ACC levy are collected at the same time, but are not included in this amount.

change of ownership of a vehicle. This revenue is then paid into the NLTF. This proposal seeks to increase the annual licensing fee component of Motor Vehicle Registration fees.

6. In practice, annual vehicle licence fees are paid alongside ACC levies, administration fees and GST in the same invoice – commonly referred to as 'rego'. As such, different vehicles may pay substantially different 'rego' fees overall. Payment is managed by NZTA. The licence fees (and adjacent levies) can be paid for a period of three months through to 12 months, depending on how the vehicle owner wants to manage this. An administration fee needs to be paid for each transaction.

Annual vehicle licence fee invoice examples

Light petrol vehicle:

FEE BREAKDOWN - 12 MONTH LICENCE PERIOD	
Licence fee*	$43.50
ACC Levy*	$41.27
Other levies*	-
Admin fee	$7.53
GST*	$13.85
Online total	**$106.15**
	In-store total $109.48

*Fee varies with licence period or rounding.

Motorbike:

FEE BREAKDOWN - 12 MONTH LICENCE PERIOD	
Licence fee*	$24.50
ACC Levy*	$297.91
ACC safety levy*	$25.00
Other levies*	-
Admin fee	$7.53
GST*	$53.24
Online total	**$408.18**
	In-store total $411.51

*Fee varies with licence period or rounding.

7. The annual vehicle licence fees make up the bulk of total MVR revenue. These fees are currently set under the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011, and the annual vehicle licence fee amounts are set out in Part 2 of Schedule 5.

Schedule of Licence Fees

Part 2
Licence fees

	Vehicle type	Fee ($)
1	For a motorcycle (not being a motorcycle to which clause 3 applies)	24.50
2	For a moped (not being a moped to which clause 3(a) applies)	14.50
3	For a—	
	(a) veteran motor vehicle (including a motorcycle and a moped):	10.50
	(b) vintage motor vehicle (including a motorcycle but not including a moped)	19.50
4	For a trailer that, with the load it is for the time being carrying, does not weigh more than 2 000 kilograms	24.50
5	For a tractor or self-propelled agricultural machine	43.50
6	For a traction engine	10.50
7	For an all-terrain vehicle	24.50
8	For a motor vehicle not falling within any of the previous categories	43.50
9	For any trade plate for use on a motorcycle or moped	24.50
10	For any trade plate for use on any other motor vehicle	43.50

Schedule 5 Part 2 item 5: amended, on 1 October 2012, by regulation 19(2) of the Land Transport (Motor Vehicle Registration and Licensing) Amendment Regulations 2012 (SR 2012/227).

8. Continuous licensing is required for most vehicles. This means a vehicle cannot be left without a licence for a few months and then renewed from that date – the licence will be backdated to the last date of expiry unless an exemption is applied for and given. There are (comparatively) significant penalties for using a vehicle on the road without a

vehicle licence.[2] Some vehicles are exempt from continuous licensing however, for example tractors, forklifts and agricultural machinery.

9. From a revenue perspective, this means we can expect to receive full annual licence fees from most road-registered vehicles. Data from NZTA indicates that the overall revenue collection rate from registered vehicles was very high, with 96.2 percent of fees being collected within a 12-month period after the licence expired (for the year ending March 2024).

Revenue from this 'fee' is for land transport activities

10. The purpose of these fees is important to consider, as that shapes the policy opportunity most appropriate to use in this case. The annual vehicle licence fees are in place to collect revenue for the purposes of the Land Transport Management Act 2003. This means the revenue collected can be spent on any part of the transport system as allowed by the Act. Revenue raised through annual vehicle licence fees goes into the NLTF as general funding, it is not tied to a particular cost or expenditure obligation.

11. The chart below outlines the spectrum of different kinds of government revenue collected. Revenue from licence fees under the MVR scheme sits alongside FED and RUC as hypothecated revenue – despite being labelled a 'fee' in legislation. It is not a direct cost recovery fee, nor a cost spread out across the user base.

Table One: spectrum of fees and charges

Less user pays ⟷ **More user pays**

General Taxation	Hypothecated Revenue	Levy	Fee
• Not tied to any particular activity. • Allocated by Government at Budget.	• Funding generated for a ringfenced purpose. • E.g. FED, RUC, MVR.	• Cost of services spread across users. • E.g. Fire Service levy or ACC levy.	• Fixed charges directly related to the cost of service. • E.g. passports or permits and consents.

12. The nature of annual licence fees as hypothecated revenue is supported by different parts of current legislation. The enabling provision for these regulations is section 269 of the Land Transport Act 1998. Section 269(1)(r) enables regulations 'identifying those fees and charges that are land transport revenue for the purposes of the Land Transport Management Act 2003'. Section 63(3) of the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011 also advises that the licence fees are to be considered 'land transport revenue' for the purposes of section 6 of the Land Transport Management Act 2003, which in turn is 'revenue for the purposes of this Act'.

[2] The infringement fee for an individual causing or permitting unregistered or unlicensed motor vehicle to be on the road is $200 (section 77(2)(a))

Rationale for annual vehicle licence fees as a flat-rate charge

13. Vehicle licence fees are set at a flat rate for all vehicle owners, irrespective of how much they use the road network or how far they drive. As such annual vehicle licence fees are not directly a user pays approach. However, increases to the licence fees are being considered in response to overall transport system cost increases, and as an alternative to increasing operational expenditure through Crown grants (which come from general taxation). Using a vehicle-specific revenue tool to increase funding available for the transport system is closer to a user pays approach than using general Crown funding.

14. The decision to increase MVR revenue instead of raising FED and RUC really depends on whether an increase is better done based on the use of the network, or as a flat charge. A flat charge per-vehicle is less economically efficient in that it does not offer pricing signals about the use of the transport network. None of the options presented are progressive (i.e. based on income or ability to pay), but we should note the extent to which those causing the same costs are contributing the same amount. When considering annual vehicle licence fees on their own, this is not the case. It would not be acceptable, for instance, if all the charges for transport were based on flat rates. This would be unfair for those who have a vehicle, but use it very little, compared to those who use the network a lot.

15. However, a flat charge such as the annual vehicle licence fee as part of a wider revenue package may still be acceptable – particularly given this funding can be used for any part of the transport system contributed to by the NLTF. Everyone benefits from having a well-maintained roading network to some extent, regardless of how much they personally use it. And some common costs for the network apply regardless of how much use there is. These matters provide justification for use of a flat charge in such circumstances.

Vehicle licence fees have not changed since the 1990s

16. Annual vehicle licence fees have not increased since 1994 – and in effect the overall amount charged has not changed since then (depending on how the admin fee is accounted for). The table below shows the change in the licence fees over time, and the equivalent amount in today's money. The requirement for most vehicles to be licensed continuously was introduced in 1997.

Table Two – historic rates of vehicle licence fees

Historic annual vehicle licence rate (for most vehicles)	2023 Q3 equivalent cost[3]
1949 - £2	$182.87
1962 - £4	$213.67
1977 - $20.00	$187.03
1983 - $39.00	$161.94
1986 - $47.00	$147.23
1994 - $50.00	$101.28
1995 - $43.50 ($6.50 admin fee separated out)	$84.72

[3] Calculations made using the Reserve Bank inflation calculator as at Quarter 3 of 2023/24.

Other fees and charges alongside vehicle licence fees have changed in recent years

17. The NZTA fees and charges review undertaken from April 2022 focused on recovering specific costs of regulating the land transport system from different users. A range of administration fees were amended, including for motor vehicle licence applications – as outlined in Part 4 of Schedule 5 of the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011.[4] The revised administration fees for most people are now $7.53 (for an application made online), $10.43 (if applying in person through an agent), or $12.32 (by email or post).[5] These increased fees came into effect October 2023.

18. The ACC levy portions of the annual vehicle licence charges are reviewed every three years, with annual changes scheduled over each three-year period. ACC levies are charged differently, depending on vehicle type and the fuel the vehicle uses.[6] For non-petrol vehicles, the entire ACC levy is paid through the vehicle licensing process. ACC levies for petrol vehicles are recovered partly through the vehicle licensing system and partly through a levy on petrol.

What objectives are sought in relation to the policy problem?

19. The primary objective of increasing the annual vehicle licence fees is to collect additional revenue, within current legislative settings, that can contribute to the general cost of transport infrastructure and maintenance as signalled in the draft GPS 2024.

Previous advice provided on changes to MVR revenue

20. There have been different views on the role of MVR related revenue over time, and of annual vehicle licence fees specifically. Changes have been made to other elements of motor vehicle registration related levies at different stages, but not to annual licence fees. Depending on the type of vehicle and its use, different fees and levies may be collected with an annual vehicle licence transaction, including the motor vehicle licence fee; ACC Motor Vehicle Account levy; ACC Motorcycle Safety levy; Safety Standards levy; Audit and Standards levy; and a Transport Services licence fee.

21. In 2009 an independent review[7] was undertaken on Road User Charges, which also included advice on the licence fees. This review recommended that the annual motor vehicle licence fee be replaced with a new annual road network access fee. The access fee would then be set to recover non-use related elements of road expenditure, under the Cost Allocated Model (CAM). Using this charge as a revenue source for defined costs under the CAM, rather than as general revenue to offset general costs gets closer to a User Pays model. However, the Ministry of Transport declined the recommendation at the time, as a large annual fee would create significant inequities between road users who cover widely varying annual distances. The proposal also had little support from stakeholders and would have been complex to calculate and justify.

22. In 2012 a vehicle licencing reform project was set up across NZTA and the Ministry of Transport to review four connected systems – warrant of fitness (WoF), certificate of fitness (CoF), annual vehicle licencing and transport services licencing. A wide range of

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[4] https://www.legislation.govt.nz/regulation/public/2011/0079/latest/DLM2938471.html

[5] The cost recovery analysis done by NZTA for the admin fees is found here: https://www.transport.govt.nz/assets/Uploads/Cost-Recovery-Impact-Statement.pdf

[6] https://www.acc.co.nz/assets/corporate-documents/Levy-con-results/2022-25-motor-vehicle-levy-rates.pdf

[7] https://www.nzta.govt.nz/assets/resources/road-user-charges/docs/ruc-final-report.pdf

ideas were considered, but no changes were made to annual vehicle licence fees specifically - focusing instead on WoF and CoF changes and administrative efficiencies.[8]

23. In 2017, advice was provided by the Ministry of Transport in favour of the incoming Government's proposal to disestablish vehicle licence fees altogether. Reasons for disestablishing the fees include the regressive nature of a flat fee regardless of travel, the (relatively) high transaction costs, and the level of customer hassle associated with the collection cost. Payment of the licensing fee is not automated, and compliance requires different steps (applying and paying for the licence, receiving it in the mail, and replacing the licence in the windscreen of a vehicle). It was also argued that there are better, fairer, less expensive ways to raise revenue.

Approach to MVR fees by other jurisdictions

24. A scan of transport-related revenue tools used by other jurisdictions was undertaken by the Ministry in 2022. Vehicle ownership fees as a revenue tool are used in many countries, as well as similar regular taxes for owning specific classes of vehicles. However, in most cases the fees or charges for re-licensing have different purposes; for example, some European countries tend to use them as environmental charges, and others treat this as general revenue.

25. States in Australia do use registration fees, which alongside stamp duties appear to be on par with revenue levels collected from fuel taxes. For example, in New South Wales, motor vehicle duty is calculated based on the market value of the vehicle.[9] In Western Australia, light vehicles and heavy vehicles both pay a registration fee, but for heavy vehicles this also contains a weight-based portion per 100kg. In 2022 the proportion of vehicle registration fees in total transport revenue in Australia was approximately 22 percent. Australia has considerably lower fuel taxes than New Zealand, and do not use distance-based road user charges.

26. In the United Kingdom (UK), Vehicle Excise Duty is a vehicle road tax paid for by most types of vehicles used or parked on public roads. Differential pricing is used for cars based on vehicle emissions. For trucks it is based on size and weight per axle. Vehicle excise duty (import tax on a vehicle) is a major source of transport revenue in UK. Rates range from £0 to £2,365 for the first year, and from £0 to £520 per annum for subsequent years. National Highways, a Crown company that manages and operates the strategic road network in England, is fully funded from the National Roads Fund, a hypothecated fund generated from revenue from Vehicle Excise Duty.

27. In Ireland, when motorists purchase a new or imported vehicle they are required to pay a vehicle registration tax. The tax rate is set as a percentage of market value and increases with the emissions profile of the vehicle (previously vehicle size). Rates range from 14 percent to 36 percent of a car's market value and is a one-off payment. Local authorities also collect an annual motor tax, which goes towards transport investment across modes. Vehicle registration tax and annual motor tax combined generated over 50 percent of the total transport revenue in Ireland in 2022/23.

28. Singapore has made strong policy choices to limit car use, including making car registration fees well in excess of the value of the car. Additional registration fees are

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[8] https://www.transport.govt.nz//assets/Uploads/RIA/VLR-Regulatory-Impact-Statement.pdf

[9] https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/motor-vehicle-duty

also charged on vehicles as a percentage of the market value of the vehicle. Road user charges form a very small proportion of Government vehicle-related revenue, because vehicle ownership control tools raise far more revenue.[10]

29. The rationale for New Zealand's vehicle licence fees sits somewhere in the middle of other approaches. It is not a general government tax, as the revenue is hypothecated to the NLTF for use on land transport. Nor is it a specific cost recovery approach, or about pricing for externalities. Licence fees in New Zealand are generally much lower than other jurisdictions – but this is in part due to long-standing decisions to use FED and RUC for revenue increases over time.

Stakeholder impacts & consultation

Who are the stakeholders in this issue, what is the nature of their interest, and how are they affected?

30. Most **New Zealanders** will be stakeholders in this issue. A well-functioning land transport system is important for connecting people with each other and with opportunities, and is vital for economic prosperity. Using the revenue tools available is important for maintaining and improving this system. The general nature of vehicle licence fees (i.e. they are used for the purpose of transport revenue) means the use of this funding has a potentially broader impact than just the vehicle owners who pay it.

31. More specifically, **vehicle owners** will bear the fundamental impact of this proposed change. Addressing concerns and ensuring understanding of the policy will help with the success of the regulatory change. Households will be impacted, so there may be a high level of public interest.

32. **Companies and organisations** with large vehicle fleets will also have a particular interest. Other specific users to consider include those who pay licence fees for trade plates - used by car dealerships or while in possession of a vehicle for the purpose of selling it.[11] Car dealerships will see an increase in their costs.

33. **New Zealand Transport Agency (NZTA)** are responsible for administering and collecting vehicle licence fees and have provided feedback on the proposal to increase them as part of the draft GPS 2024. Comments were mostly limited to policy matters, and an acknowledgement we will collectively need to support compliance once the changes are in place. NZTA will manage the implementation of fee changes, once these are agreed to and regulations are amended.

34. **New Zealand Police** and **local councils** (through parking wardens) are involved in enforcement of vehicle licencing. It is possible that a one-off increase in costs like this could impact non-compliance, though no changes are being proposed to the compliance requirements or penalties connected to vehicle licencing as part of the fee change. Further conversations about operational impacts may need to be had prior to the implementation of any changes.

35. Engagement on this proposal has so far been undertaken through the development of the GPS 2024, as set out below. Consultation on the GPS 2024 has included some targeted engagements with Māori, though these have been time constrained.

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[10] https://www.itf-oecd.org/sites/default/files/docs/congestion-control-singapore.pdf

[11] https://www.nzta.govt.nz/vehicles/motor-vehicle-traders/trade-plates/

Consultation with iwi, and other key players or interest groups, is better at a more strategic level than just consulting on annual vehicle licence fee rates. Given this, no separate stakeholder consultation has been undertaken for this proposed change.

Consultation was undertaken as part of the draft GPS 2024 process

36. Public consultation on the draft GPS 2024 was open for submissions from 8 March to 2 April 2024, and this included a survey with a specific question about the proposal to increase annual licence fees. This survey question was answered by 1,280 people, out of a total of 1,376 who replied to the survey. We note participants were self-selected, so the results are not necessarily representative of the whole population. The submissions did however reflect a broad range of views across these respondents.

37. Over 60 percent of respondents either agreed or strongly agreed with the proposal to increase vehicle licence fees to help pay for transport investment. (Noting about 4 percent of respondents did not answer this question). Results were as follows:

Question 7: Do you agree with the proposed $50 increase to annual motor vehicle licence fees (‘rego’), spread across two $25 increases in January 2025 and January 2026, as a way to help pay for transport investment?	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	15%	49%	16%	5%	11%

38. Common themes that came through in the comments included:

    a. Concern that this is another tax that will make the cost of living more expensive. There was also some concern for the disproportionate impact that increasing a flat fee will have on lower income groups. At least 60 individuals commented specifically on these matters. Following on from comments about cost to vehicle owners, a few also commented that higher registration costs will create more of an incentive to drive unregistered/unsafe cars.

    b. FED and RUC are better tools to use to raise transport revenue. As weight/distance-based tools they were seen by commenters as fairer – and/or likely to generate more revenue than annual licence fees. More than 150 people offered comments about FED and RUC being a preferred option compared to increasing licence fees. A common theme was that freight/trucking companies should pay more than they do.

    c. MVR is a good tool to use. There were different reasons put forward for this, including that businesses with a large vehicle fleet should pay proportionately, and that increasing the cost of vehicle ownership might help incentivise other ways of travel. Others agreed this should be increased to match inflation. Well over 200 comments included views that increasing licence fees would be a good approach to raising transport revenue.

    d. Motor vehicle licence fees are comparatively low in New Zealand than other countries, and could/should be increased. Examples of other countries, particularly Australia were referenced in comments too.

39. The comments received often also included thoughts about how the funding could/should be better spent – and some comments included they agreed with increased MVR on condition that the additional revenue is invested in alternative travel modes. However, the majority agreed it is an appropriate tool to use to increase revenue for funding transport investment.

40. Other comments included thoughts on how the MVR tool could be used a bit differently, for example pricing for 'external' costs such as the size or age of the vehicle, its safety rating, or how much of a pollutant it is. While these are interesting to note, the comments and suggestions are out of scope for the changes proposed here.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

41. Different criteria have been considered throughout the preparation of this analysis. Given the fairly narrow problem definition and subsequent options, the following criteria will be used for the assessment:

- **Revenue potential** – how effective each option will be at meeting the policy objective of increasing transport revenue.
- **Equity and fairness:** The proposed options will have different impacts depending on which rates are adopted. Assessment of both vertical equity (the relative position of those on different income levels or in different circumstances) and horizontal equity (the consistent treatment of those at similar income levels, or similar circumstances) is relevant.
- **Transparency** – whether the change is rational and likely to be understood by New Zealanders as a response to meet the targeted objective. Certainty and predictability of the option plays a part here too – and the extent to which the tax system is clear, and taxpayers are able to determine their tax obligations before they are due.
- **Easy to implement** – whether the change can be implemented in a timely, low-cost manner – particularly as revenue is required in the shorter term.

What scope will options be considered within?

Detailed analysis of other revenue tools is out of scope

42. The scope of the options here are limited to using the annual vehicle licence fee as a revenue tool, as this is what the Minister of Transport and Cabinet have agreed to include in the draft GPS 2024 proposal. Other revenue tools have been briefly considered as part of the analysis, but are not considered specific options in relation to this decision given the timeframes required to implement them. Ongoing work on the revenue system will consider other tools, but these are not viable options for increasing revenue within the GPS 2024-27 period.

Only annual vehicle licence fee rates are in scope

43. Only the rates of annual vehicle licence fees under Part 2 of Schedule 5 are in scope of this proposal. The broader framework for MVR fees, including the categories of vehicle type, is out of scope. The level of variation in fees (i.e. how much each vehicle type pays compared to the others) is also not in scope. We are not looking to reassess the rationale behind what each vehicle type is charged, nor are we considering replacing these fees with the likes of an access charge or with charges stemming from the Cost Allocation Model (CAM).

44. Also out of scope are other Motor Vehicle Register related fees, including initial registration fees, change of ownership fees, licence plate fees, and admin fees etc, as listed in different parts of Schedule 5.

What options are being considered?

45. The options have been narrowly framed, to ensure that the analysis is useful for decision makers. The options assessed are:

    a. **Option One:** Keeping the annual vehicle license fees at the current rate and raising additional revenue by increasing the rates of FED and RUC (sooner than currently signalled, and in addition to planned increases from 2027).

    b. **Option Two:** A phased increase of $50 over two years as per the draft GPS 2024 - $25 increase each year in 2025 and 2026 (with a percentage equivalent of 115 percent for other specific vehicle rates as listed in regulations).

    c. **Option Three:** A one-off fee increase of $50 for most vehicles (with an equivalent 115 percent increase for other specific vehicle rates).

Option One – The traditional tools of FED and RUC

46. FED and RUC are the major contributors to revenue for the NLTF. Around 5 percent of overall revenue comes from Motor Vehicle Registration related revenue and the rest from a fairly even split between FED and RUC. FED and RUC have traditionally been the tools used to increase transport revenue. The current rates (70.024 cents per litre or $76 per 1000 kms for light vehicles) were initially put in place 1 July 2020, though with a temporary decrease of 25 cents from April 2022 to June 2023. Prior to this, a 3.5 cents increase per year had been set in place for the 2018 GPS period, following a four-year period of consistent rates at about 60 cents per litre (and RUC equivalent).

Revenue potential

47. This option would keep annual vehicle licensing fees at the existing level, and instead target additional revenue from the FED and RUC levers. We estimate a one cent increase in FED (and equivalent RUC) generates approximately $60 million per year.

48. An additional 4 cents per litre in FED (and an equivalent increase for RUC) would raise around as much revenue as a $50 increase to annual vehicle licence fees. To match the proposal in the draft GPS 2024, the increase to FED (and equivalent RUC) would need to be 2 cents in 2025, and another 2 cents in 2026. This is on top of the current 70.02 cents per litre charge in FED. Using FED and RUC as a revenue tool would meet the criteria of adequate revenue potential.

Equity and fairness

49. FED and RUC are distance-based revenue tools, with drivers paying for use of the road network according to distance travelled (by proxy as per fuel usage, or pre-paid through road user charges). Using a distance-based charge can be seen as fairer, and certainly a more direct user-pays approach than a flat rate charge for all vehicle owners, irrespective of distance travelled. Those who travel more (and therefore use the transport system more) would bear the burden of this revenue increase more. Heavy vehicles currently pay proportionately more of the funding raised using RUC, which again reflects the fact that they contribute more to degradation of the roading infrastructure and should pay more to maintain it.

50. From a taxation perspective, using FED and RUC for additional revenue is still regressive, in that costs do not take into account income or ability to pay. Those on different income levels or in different circumstances are not taxed differently, so the

costs will have a greater impact on those with lower incomes. Lower income households pay a greater proportion of household income for these transport charges – though there may be the opportunity to reduce costs (and therefore transport tax paid) where travel can be reduced. However, we know travel is relatively inelastic (i.e. necessary for people), and many on lower incomes require transport at times or in places underserved by public transport or other private car alternatives. While wealthier households tend to travel more and spend more on transport overall, the proportion of household income spent on transport is less.[12]

Transparency

51. FED and RUC are familiar tools, and fairly well understood by the public, including what it means for their household costs should these rates change. In the case of RUC, road users know what they will be required to pay, and there is a clear connection to the charge paid and the perceived benefit of road use. Fuel excise duty is less direct, as it is bundled in with other levies and the market price of fuel – so it is a little less transparent.

52. The rationale of revenue from user-based charges is generally accepted. Around 10 percent of those who responded to the survey question about increasing licence fees also commented that increasing FED and RUC would be a better approach, or that some kind of user pays approach should be used so that those use the roads and contribute most to damage would pay more. This sentiment was expressed across both those who agreed and disagreed with increasing the annual vehicle licence fees.

53. However previous government commitments have ruled out increasing FED and RUC until 2027, so using these tools for the additional revenue may not be seen as an appropriate response from a certainty and predictability perspective.

Ease of implementation

54. This option would be reasonably easy to implement, given FED and RUC are existing tools for which the rates are periodically revised. Regulations that set RUC rates would need to be amended, and require a 42-day notice period before coming into effect. FED increases would likely require primary legislation, which takes time, but this is not particularly complex.

55. The costs involved in changing FED are very low, given New Zealand Customs Service collects this from the handful of fuel companies as they bring fuel into the country. Increasing RUC requires some operational changes for NZTA, however the process would remain unchanged, and rate changes could be implemented fairly quickly.

56. However, using these tools in the short term may not be acceptable to decision makers, or New Zealanders, given the previous commitment by the government not to raise these taxes for the period of this Parliament.

Option Two – phased increase over 2 years, as per the draft GPS 2024

57. Option two is to increase the annual vehicle licence fees for most vehicles by $50, in increments over two years (and by an equivalent amount for the other fees specified in regulations). This is the option presented in the draft GPS 2024. The first increase would be $25 (or 57.5 percent) in January 2025, and the second increase of $25 (or

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[12] https://www.transport.govt.nz/assets/Uploads/The-Distributional-Impacts-of-Transport-final-report-005.pdf

36.5 percent) would be in January 2026. Table six (page 28) sets out what these increases would be for each vehicle category type listed in the regulations.

Revenue potential

58. This approach would add approximately $150 million revenue to the NLTF in 2025 and nearly $300 million annually from the year 2026. This would be sufficient revenue to meet the investment required as per the draft GPS 2024. This approach will offer enough revenue in the shorter term, though less than option three. Phasing in the licence fee increases over two years would result in $150 million less revenue compared to a one-off $50 increase from January 2025 (option three).

Equity and fairness

59. This option increases a flat fee, and as such there is a regressive nature to the charge. A vehicle licence must have been paid for and displayed on the vehicle in order to drive on New Zealand's public roads – the cost of which does not change depending on use of the network or ability to pay. Lower income households will feel the impact of the increase the most in proportionate terms, but phasing this cost in over a few years will have a lesser impact in the short term. However, a flat rate depending on vehicle type does mean those in similar circumstances are all treated the same. The costs vehicle owners will be required to pay depends consistently on how many vehicles they have.

60. Around 5 percent of respondents to the draft GPS 2024 survey offered comment about concerns for lower income household if fees increase. This reflected general cost of living concerns, but also specific views on the inequality of flat taxes as being regressive and tougher on lower income, poorer or more vulnerable households. A few comments were also made about how phasing the increase across a longer period may help ease the burden. Once the full fee is in place, the impact across the population will be the same as for option three.

Transparency

61. Using the annual vehicle licence fees to generate more revenue for the transport system is a fairly simply solution, and will likely by understood by New Zealanders as a legitimate option for doing so. As outlined above, 64% of respondents to the draft GPS 2024 feedback survey agreed with increasing the licence fees to pay for transport investment. Many respondence also added a comment as to why they thought this, including that registration fees are much higher in other countries, and/or that it makes sense to increase these fees alongside inflation. Others felt charging private vehicles a flat fee was appropriate as it contributes to the general public resources all vehicle owners use, and/or that higher costs might incentivise fewer private vehicles.

62. This option also offers certainty and predictability in that the proposed increase is a standard amount for a flat rate fee – charged per year, per vehicle. Early notice of the changes can be provided to vehicle owners, and the direct invoicing of vehicle registration fees helps clarify their obligations.

63. However, these fees are bundled in with other levies and charges, including ACC levies – and for those only paying attention to the overall amount to pay, this specific component of transport revenue may not be obvious. Phasing in the increase may also make things a little less clear (i.e. how much people will have to pay, and when) particularly given the different periods of time a vehicle licence can be purchased for.

Ease of implementation

64. The option of phasing the increase to annual licence fees may be more complex to implement than a one-off increase. Regulations will need to take into account two increases to rates, and operational changes will need to be implemented twice. However, the process for regulatory change, and the practical changes required, are the same as option three. NZTA is responsible for collecting annual vehicle licence fees, and would need to update invoicing/collection systems. This could be done in time for the 2025 calendar year.

Option Three – A one-off $50 increase (or equivalent)

65. This option would see a one-off increase to vehicle licence fees by $50 for most vehicles in January 2025, with an equivalent 115 percent increase applied to other rates in the schedule.

Revenue potential

66. Modelling using our standard revenue forecasts indicates that a $50 increase to the licence fees[13] would generate an additional $744.33 million in revenue over the three-year GPS 2024-27 period. Bringing in the full increase as soon as possible will generate the most revenue for the NLTF from the three options considered in this analysis, so this would be an effective approach.

Equity and fairness

67. As in option two, increasing a flat rate fee irrespective of how much someone earns is naturally regressive, and will impact lower income households the most. A sharper increase in rates will impact households more than option two. The level of cost increase for households and businesses will vary depending on how many vehicles they own, rather than how much those vehicles are used or the vehicle owner's ability to pay.

Transparency

68. As per option two, using the annual vehicle licence fees to raise further transport revenue is well understood and will make sense to people. The correlation between the fee and it's purpose as transport revenue is well accepted – even as this increase in vehicle operating costs may be difficult for some. The rationale of increasing the fees to bring them back in line with inflation-adjusted levels also made sense to people, as commented on by quite a few survey respondents.

69. Committing to a one-off increase of $50 (or equivalent) provides a high degree of predictability and certainty for people – more so than a phased increase or increasing distance or use-based charges. The current MVR system with advance renewal notices and direct invoicing will help vehicle owners understand their tax obligations, even though (as outlined above), these fees are bundled with other levies.

Ease of implementation

70. A one-off increase to annual vehicle licence fees would be simpler to implement than a phased approach. Regulations can be amended through order in council, with only one

[13] The revenue forecasts reflect licence fees in the line item 'MR1', separate to the other registration fees identified as 'MR2' – so the increase is applied across that first category.

new schedule of rates required. NZTA would be responsible for implementing the amended rates, including changes to the system, communicating the changes to customers and updating invoicing and notices. This could be done in time for the 2025 calendar year.

Other options were considered by not included in this analysis

71. A further option briefly considered was to index the licence fees to inflation, from a base of $43.50 in 1994. This would bring the ‘buying power’ back to what it was when last re-set, but also cater for ongoing changes to ensure revenue increases alongside cost increases. Based on the general consumer price index (CPI), the annual vehicle license fee of $43.50 in 1992 Q1 would be equivalent to $90.50 in 2023 Q4, a 108 percent increase. If we looked at using the Transport CPI instead, this would be $74.94 in 2023 Q4 (from 1994 Q4), a 71.1 percent increase.[14]

72. The proposed $50 or 115 percent increase in the fees is broadly in line with an increase using general CPI, so this option is not substantively different. Indexing the fee to increase it year on year is outside the intention of the current change, though may be useful to consider if opportunity for a wider review of this revenue tool was on the table.

73. We also considered an option where the proposed increase to licence fees would be phased in over five years – by $10 each year. This provided an option that more strongly responds to concerns about cost-of-living increases. This option would result in a slower increase of costs for New Zealanders, but would significantly reduce the revenue contribution to the GPS 2024 funding package.

74. Phasing in fee increases by $10 per year (over 5 years) would add approximately $47 million extra each year to NLTF revenue from 2025 for the next five years, but would result in less revenue over the 2024-2027 period than a one-off increase from January 2025. The timeframe of a five-year phase-in is too long to achieve the outcomes sought with these changes.

How does revenue potential compare across the options? How is the revenue collected across the fleet?

Revenue potential across the options

75. The table below shows the revenue potential for each option presented, as outlined in the sections above. Projections for options two and three are calculated using the revenue model developed for the GPS 2024, which aligns with the latest BEFU revenue forecast.

76. Changes to regulatory levers cannot be made in time for the new financial year, but would be possible from January 2025. Given this, a half-year portion has been included in the 2024/25 financial year.

77. Option three presents the highest revenue potential, though noting FED and RUC could likely be adjusted in time to match this if required.

[14] https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/inflation-calculator

Table Three: Revenue increases under each option

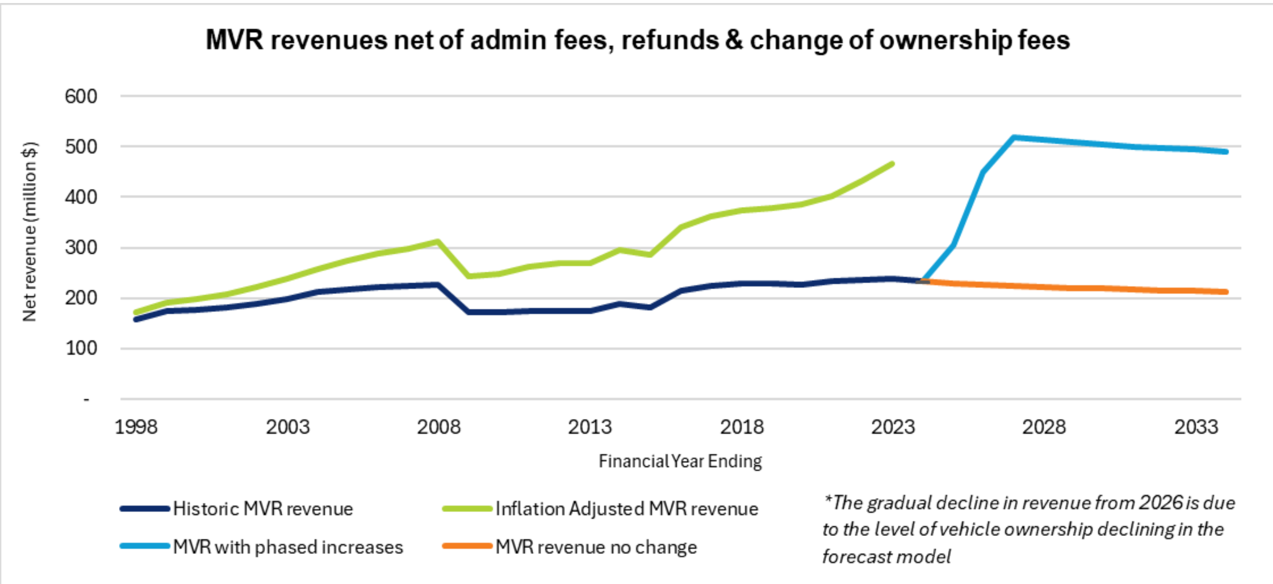
$million	2024/25		2025/26 (increase on current)		2026/27 (and outyears)	3-year total
	Jul-Dec 2024	Jan-Jun 2025	Jul-Dec 2025	Jan-Jun 2026		
Option One – FED & RUC		+2c/L 56.83	56.83	+4c/L 178.53	363.84	656.03
Option Two - $50 increase phased over 2 years (as per the draft GPS 2024)	- 0	+$25 75.53	75.53	+ $25 148.23	294.94	594.22
Option Three - $50 one-off increase	- 0	+$50 151.06	151.06	147.29	294.94	744.33

Revenue potential projections

78. Revenue collected from annual vehicle licence fees has been steadily increasing over time, mostly due to our increasing vehicle ownership rates. The graph below shows the revenue trend since the rates were last adjusted, and the revenue projections. Two points of note in the historic data are the dip in revenue from 2008 (after the Global Financial Crisis), and a dip in 2015 where ACC levy reductions impacted when and how people purchased their vehicle licence.

79. A primary rationale for the size of this fee increase is to bring the fees in line with an inflation adjusted amount. The green line on this graph illustrates what the revenue would have been if licence fees been adjusted for inflation since they were last amended. The revenue provided to the NLTF from fees would be nearly double current figures.

Graph one: MVR annual vehicle licence revenue projection



Owners of the light vehicle fleet will contribute the bulk of revenue from licence fees

80. Vehicle ownership is particularly high in New Zealand, with around 0.9 cars per person – one of the highest rates in the world. Light vehicles dominate the motor vehicle fleet, representing about 94 percent, with over 4.1 million vehicles in 2022. The additional revenue generated through annual licence fees will come predominantly from the light vehicle fleet. This is in contrast to revenue generated through FED and RUC, where heavy vehicles pay a much higher proportion of the revenue collected given the charges are proportional to weight and distance travelled. Heavy vehicles contribute 60 percent of RUC revenue, but only make up 17 percent of the RUC-paying fleet.

81. The table below gives an illustration of the fleet and how the revenue from the increased rate would be collected across the vehicle types. Note, the number of registered vehicles is always shifting, as the registration status of vehicles changes (registered, de-registered, exemption granted) or vehicles are imported or scrapped. Some vehicles are not required to be continuously licensed, such as tractors, forklifts, agricultural machinery, ATVs and trailers. ATVs are also currently exempt from paying licence fees, and these changes will not impact any current exemptions.

Table Four: Approximate revenue proportions across the vehicle fleet

Type of Vehicle	Number of Vehicles registered[15]	Current rate (since 1994)	Future rate (as proposed)	Est. proportion of annual vehicle licence revenue
Light Vehicles	4,410,000	$43.50	$93.50	92%
Heavy Vehicles	189,600	$43.50	$93.50	4%
Motorcycles	216,100	$24.50	$52.50	2.6%
Tractors	60,000	$43.50	$93.50	1.4%
All-Terrain Vehicles (exempt)	8,891	$24.50	$52.50	n/a

[15] Source: https://www.transport.govt.nz/statistics-and-insights/fleet-statistics/

How do the options compare to status quo (no revenue increase)?

	Option One – Use FED & RUC, with no increase to annual vehicle license fees	Option Two – as per the draft GPS 2024 Increase of $25 in 2025, and $25 in 2026	Option Three - $50 one-off increase
Revenue potential	++ Potential revenue contribution is high – but this depends on decisions made. For instance, implementing a 4-cent increase would raise similar total revenue as a one-off $50 increase in annual vehicle license fees.	+ The phased increase would result in lower revenue to begin with compared to option three, but consistent in the longer term. Is sufficient to meet the funding package requirement of GPS 2024	++ This option has the highest revenue potential (although noting that Option One could be adjusted to provide as much if not more revenue), $150m more than if the increases were phased in. In the longer-term, the annual revenue impacts would be the same.
Horizontal and Vertical equity	0 Distance-based (user pays) revenue tools are seen as fairer, but this approach is still regressive. Vertical equity is low, as those on different incomes must pay the same rates – which has more of an impact on lower income households. Horizontal equity is fair, as those in similar circumstances have the same tax obligations.	- Vertical equity is low, as those on different incomes/circumstances must pay the same rate increases. Phasing the increase may help people adjust and with some concerns about cost increases. Horizontal equity is fair, as those in similar circumstances have the same tax obligations (charges are consistently determined by number and type of vehicles owned).	-- Vertical equity is low, as those on different incomes/circumstances must pay the same rate increase. Horizontal equity is fair, as those in similar circumstances have the same tax obligations (charges are consistently determined by number and type of vehicles owned).
Transparency	- FED and RUC are well understood as revenue tools, with RUC being more transparent than FED. The government has previously committed to not increasing FED and RUC this government term, so from a clarity and	+ Annual vehicle licence fees (as part of 'rego' requirements) are already familiar to vehicle owners, and consultation on the draft GPS indicated most thought this an appropriate revenue tool to use. The flat-rate increases are easy to understand, though noting licence fees for	++ A one-off fee increase is certain, predicable, and understandable (particularly as a move to bring rates back in line with an inflation-adjusted amount).

	predictability perspective it would not be ideal to use these tools.	the purpose of NLTF revenue are bundled with other levies. Phasing in the change could make the obligations less clear, though effective comms activities and direct invoicing can mitigate this.	A single-step increase in fees is, as per the criteria, more transparent – but may be more difficult for people to accept.
Easy to implement	0 Existing legislative framework is clear, implementing new rates has been done regularly. Changes could be implemented in a similar timeframe to changing licence fees, though it would require multiple legislative/regulatory changes required.	+ A little more complex than option three, as regulations will need to take into account two increases to rates, and operational changes will need to be implemented twice. Changes can be implemented in time for 1 January 2025.	++ Simpler to implement than option two, given only one changes is required. Same timeframes to implement though.
Overall assessment	- FED and RUC could be used to raise additional revenue in the shorter term for the GPS 2024 package. However, this option does not fit the current government commitments.	++ This option meets the primary requirement of raising additional revenue, while balancing some concerns about equity and increased costs for households.	+ While this option seems to best meet the criteria, the equity and household cost matters raised carry a lot of weight, and a phased approach is likely to be more acceptable.

Key for qualitative judgements:

++	better than the status quo/no increase
+	somewhat better than the status quo/no increase
0	about the same as the status quo/no increase
-	somewhat worse than the status quo/no increase
- -	worse than the status quo/no increase

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

Option two – Phased increase in annual vehicle license fees

82. The option being considered by the draft GPS 2024 is relatively simple – effectively a one-off adjustment (i.e., not indexed) but phased over two years. It meets the objective of raising enough revenue to contribute to the draft GPS 2024 funding package.

83. There may be concerns around impacts on lower-income households with the one-off increase in the fee, and these could be somewhat mitigated through a phased increase. However, a phased approach is slightly more complex to implement, and will reduce the total revenue raised in the first year.

What are the costs and benefits of option two?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional <u>costs</u> of the preferred option compared to taking no action			
Vehicle Owners	Once fully implemented, the additional cost is $50 (or equivalent 115% increase) per vehicle for an annual vehicle licence. Household cost increase will depend on the number of vehicles owned.	Vehicle owners will pay an additional $295 million per annum collectively.	High – based on both revenue forecasting and fleet calculations
NZTA, MoT	Costs of regulatory change and implementing the new rates can likely be covered by business as usual	$0 additional	High
Total costs		$295 million per year	
Additional <u>benefits</u> of the preferred option compared to taking no action			
Transport users	Broad benefits are received in return through maintaining and improving the transport system.	High – with reference to the draft GPS funding package	Medium – benefits will be dependant on delivery of the planned investment.
Government, NZTA	Increased revenue (for the NLTF) enables transport system activities.	An additional $594 million over the next three years, and approximately $294 million extra per annum onwards.	High – based on revenue forecasting, so may be some variance.
Total benefits	$594 million additional revenue contributes to a forecasted revenue package of $13.8 billion over 2024/25–2026/27.	While this fee increase would contribute a small proportion to the NLTF over the next three years (around 4%), it helps provide enough revenue to also support a $3.1 billion loan for 2024-27.	High – based on revenue forecasting.

84. The overall forecast levels of MVR revenue have been updated to include option two changes as per table five below. Using the medium scenario from the latest BEFU24 forecast, the increase to annual vehicle licence fees (MR1) could generate peak annual revenue of $552 million in 2027/28. The longer-term forecasts beyond this show a slow/slight decrease in revenue, though noting the reduced reliability of longer-term forecasts. In the forecasting, motor vehicle registration fees are classed as ‘MR1’ - which is separate from admin fees, refunds, initial registration of vehicle fees (MR2), and change of ownership fees (MR13).

Table Five: Overall Motor Vehicle Register revenue – actual and short-term forecast

Motor Vehicle Register Revenue ($ million)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	Short Term Forecast	Short Term Forecast	Short Term Forecast	Short Term Forecast	Short Term Forecast
MR1 revenue	229	230	232	236	235	243	263	337	482	552	546
MR2 revenue	44	41	36	38	40	37	33	34	34	34	34
MR13 revenue	8	8	7	8	7	8	2	0	0	0	0
Gross MVR revenue	**281**	**279**	**275**	**282**	**283**	**287**	**298**	**372**	**517**	**586**	**580**
MVR admin revenue	45	43	41	42	40	42	63	68	68	67	66
MVR revenues net of admin fees & COO	**228**	**228**	**227**	**232**	**235**	**237**	**233**	**303**	**449**	**519**	**514**
MVR refunds	1	1	1	1	1	1	1	1	2	2	2
MVR revenues net of admin fees, refunds & COO	**227**	**227**	**226**	**231**	**234**	**236**	**232**	**302**	**447**	**517**	**511**

What are the potential population impacts of increasing annual vehicle licence fees?

Increasing licence fees will impact households differently

85. The proposed $50 increase in annual vehicle license fees adds about $1 per week in costs for each vehicle a household has. Census data from 2018 showed that 93 percent of New Zealand households had at least one vehicle, with a further breakdown as follows:

   a. 34 percent households had one vehicle,
   b. 39 percent had two vehicles,
   c. 13 percent had three vehicles,
   d. 5 percent had four vehicles and
   e. 2 percent of households had five or more vehicles.

86. Increasing the annual vehicle licence fees will add $1 - $5 a week to household transport costs. The impact of this will be negligible for some, and significant for others. However, the extra $50 when it comes time to pay the annual registration and licence costs could have an impact on most households, particularly as this is paid for alongside other levies such as the ACC Motor Vehicle Account levy. It is also a requirement to have a current Warrant of Fitness on the vehicle before the annual licence can be applied for – which in many cases is a $70 cost plus any remedial work that may be needed on the vehicle.

87. While licence fees are a flat rate, each transaction invokes an administration cost, and there may be multiple transactions each year depending on the period for which a licence is purchased. Vehicle owners can choose a licence term of between 3 and 12

months, and increasing the licence fees may mean more owners choose to pay the fee in shorter periods. Paying in shorter increments would increase their costs by between $6.90 and $12.32 (plus GST) each transaction for the admin fee – depending on the method of application. Current data indicates that 12-month licences are most common.

88. As a fixed cost, annual licence fees are not scalable based on how much a person travels. Unlike the variable costs of FED and RUC, a household can't opt to travel less, or use other modes of travel some of the time to reduce the impact of the cost increase.

89. On average a New Zealand household spends around 14 percent of their total costs on transport per week – though the real cost this represents varies sharply across households with different incomes. Our poorest households already spend 30 percent of their household budgets on transport (double the average), compared to 8 percent for New Zealand's wealthiest households.[16]

Distributional impacts

90. Given that the overall increase in transport costs from this proposed change is relatively low, specific detail about the distributional impacts or changes to travel patterns is difficult to assess using agent-based modelling. However, these costs sit alongside other increasing household costs, and we know different communities and groups of households will be hit harder by cost increases.

91. A survey from the Retirement Commission[17] illustrates this, showing 55 percent of New Zealanders are grappling with their financial situation. Among those surveyed, 51 percent describe themselves as "starting to sink or treading water," while an additional 3.5 percent are "sinking badly." Notably, Māori, and Pasifika People bear the brunt of financial strain, with 60 percent of Māori and 58 percent of Pasifika reporting financial difficulty. An increase in vehicle license fees is expected to disproportionately impact the already financially vulnerable segments of population.

92. Households in areas of higher deprivation tend to be the most dependent on cars, with more limited access to services (like healthcare, social services, and supermarkets), and be underserved by alternative travel options like public transport.[18] Those who can afford to live closer to work, education or other opportunities tend to have more options to avoid paying high transport costs. This means people who live in these areas are dependent on motor vehicles, and typically need to pay higher costs due to living far away from key services etc that they need to access.

93. As a fixed cost, annual licence fees are not scalable based on how much a person travels. Unlike the variable costs of FED and RUC, a household can't opt to travel less, or use other modes of travel some of the time to reduce the impact of the cost increase. These additional costs could make annual vehicle licencing unaffordable for some, resulting in an increase in non-compliance. We do not have data available at this

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[16] 2019 data: https://www.transport.govt.nz/statistics-and-insights/transport-indicators/sheet/inclusive-access

[17] https://retirement.govt.nz/news/latest-news/new-research-reveals-more-than-half-of-new-zealanders-are-struggling-with-money/

[18] As illustrated in recent studies for Auckland: https://infocouncil.aucklandcouncil.govt.nz/Open/2024/04/20240404_TICCC_ATT_11408_EXCLUDED_WEB.htm

point to assess what the impact on compliance might be, though this is a point for further consideration.

94. Annual licence fees as a form of “access charge” could add an extra burden to those who do not have other transport options. In particular, some disabled people are less likely than non-disabled people to find it easy to access key local public facilities such as doctors, supermarkets, parks, and/or public transport. The use of a private vehicle can make a big difference to people’s ability to access the places they need and want to go to. StatsNZ report that disabled people are already more likely than non-disabled people to live in a household that lacks access to a private motor vehicle.[19] Increasing vehicle ownership costs could add another barrier to accessing necessary services and quality of life opportunities.

95. For others, living in rural or more isolated areas means it is more challenging to access alternative transport options, which can exacerbate social and economic disadvantage. The use of a private vehicle in these situations is not optional, and increasing vehicle ownership costs disproportionately adds another barrier or burden to participating in social, cultural and economic opportunities.

Te Tiriti o Waitangi considerations

96. These changes to licence fees are fairly minor from a regulatory perspective, in that they do not change the settings or conditions for the charges. This particular legislative change is unlikely to impact the broader transport systems or alter Māori communities’ access to the places they need to go in any real way. As such, the application of Te Tiriti o Waitangi is most appropriately the general recognition under Article Three that Māori belong, as citizens, to the whole community. We do not see any legal or Treaty settlement obligations for the Crown, or specific Treaty interests in this matter. In this regard it is also consistent with Article One in that this is act of government that affects all New Zealanders – which has been exercised with due regard to any Treaty obligations.

97. While the overall impact of any cost increase is likely felt disproportionately by Māori households, the specific impacts of this regulatory change are less correlated with ethnicity, and more to do with factors such as income and location. We recognise the challenges here, and that the solutions to financial hardship are broader and sit outside the scope of this change. Vehicle registration and licence costs are currently a low-rate broad-base taxation approach to be paid by all vehicle owners, without exception.

98. Ongoing work on the transport revenue system must include considerations of equity, and the impact of the different revenue tools together (like fuel taxes, road user charges, future time-of-use charging or tolling etc) on Māori communities and interests. The transport system, and the taxes raised to pay for it, have not always served Māori communities well. The unintended (or intentional) consequences of taxation approaches over the years, the way land has been acquired or used, and lower levels of transport benefits delivered for Māori communities are important context for transport revenue decisions.

[19] https://www.stats.govt.nz/reports/measuring-inequality-for-disabled-new-zealanders-2018

Increasing licence fees may have a significant impact on businesses with large fleets

99. Businesses and organisations with large vehicle fleets will feel the impact of increasing vehicle licence fees. One submitter to the draft GPS 2024 survey noted that the rental car sector is already required to sort a certificate of fitness every 6 months, and that there may be flow-on impacts for tourism if/when business costs increase.

100. Businesses that derive their income from road transport may need to be consulted further on the changes, as the impacts may have unintended consequences on those businesses (e.g. ability to be a going concern with various cost increases, impact on tourism markets of increased costs etc.). Costs are generally passed onto the consumer.

101. Vehicle licence fees are also paid on all commercial vehicles, and these costs may be passed on to consumers, though the timing for this is hard to predict. There are a significant number of commercial light vehicles in the fleet. Out of the 4.41 million vehicles registered in the light vehicle fleet, approximately 788,000 are registered as commercial vehicles. There are also 189,600 heavy vehicles used for commercial purposes. Each of these vehicles would need to pay a higher annual fee, so a significant proportion of the total revenue raised by the proposed increase in fees (around $49 million per annum) would come from business.

Section 3: Delivering an option

What are the legislative requirements to make these changes?

102. Changes to the motor vehicle licence fees can be made by Order in Council. The fees are set under the Land Transport (Motor Vehicle Registration and Licensing) Regulations 2011, with Schedule 5, Part 2, outlining the rates.

103. The Parliamentary Council Office (PCO) can be issued drafting instructions once final Cabinet approval has been confirmed. The Ministry of Transport legal teams and PCO are aware of this work likely required over the next few months, in time for implementation by the start of the new year.

104. Once any changes have been made to these regulations, they will need to be confirmed by an Act at a later date (as per section 269(7) of the Land Transport Act 1998, and in line with subpart 3 of Part 5 of the Legislation Act 2019). This is a standard process for regulations that prescribe fees or charges.

How will the new rates apply?

105. If option two (as per the draft GPS 2024) is approved with a two-year phase in of the 115 percent increase, the schedule of changes to the rates would be as follows:

Table Six: fee increases for different vehicle types as per regulations

Vehicle type	Clause under Part 2 of Schedule 5	Current rate* $	Jan 2025 (+ 57%) $	Jan 2026 (+ 115% on current) $
Most vehicles: ie not falling within any of the other categories	(8)	43.50	68.50 (+$25)	93.50 (+$25)
Motorcycles (not veteran or vintage)	(1)	24.50	38.50	52.50
Mopeds (not veteran)	(2)	14.50	23.00	31.00
Veteran motor vehicle (1918 and older)	(3a)	10.50	16.50	22.50
Vintage motor vehicle (1919 – 1931)	(3b)	19.50	31.00	42.00
Trailers (with load, less than 2000 kgs)	(4)	24.50	38.50	52.50
Tractor or self-propelled agricultural machine	(5)	43.50	68.50	93.50
Traction engine (steam powered)	(6)	10.50	16.50	22.50
All-terrain vehicle (ATVs)[20]	(7)	24.50	38.50	52.50
Trade plate for motorcycle or moped	(9)	24.50	38.50	52.50
Trade plate for any other vehicle	(10)	43.50	68.50	93.50

[20] Noting there is a separate provision from 2012 exempting ATVs from paying registration and licence fees – Part 2 of Schedule 2.

How will the new arrangements be implemented?

106. NZTA holds responsibility for collecting the annual vehicle licence fees. Operationally, systems for collecting fees would not need to change, as the processing and volume of licence applications will likely remain consistent. NZTA would be able to make system changes and undertake necessary messaging to vehicle owners within a few months prior to the changes coming into effect.

107. While a change in fees could see some changes in how people register their vehicles and how long the registration is for, the volumes of this are unlikely to impact the overall processing requirements for NZTA.

108. These fee changes could pose some risk for increased non-compliance - it is possible that an increase in costs will impact on people's willingness or ability to pay. However, the current penalties regime remains unchanged, with fines for not having a current licence, and cancellation of registration after 12 months of a vehicle being unlicenced. Enforcement activities for vehicle licence fees will continue as they have been – we are not proposing a scale-up of these as a result of the changes.

109. Given the requirement for continuous licensing, the risk from any potential non-compliance to overall revenue is low. Even if licence fees are paid late, owners must pay backdated fees until the date the last vehicle licence expired.

110. Other practical timeframes and phasing of the change will also be considered. NZTA currently invoice vehicle owners around 6 weeks in advance of the licence fee being due. Regulations need to be in place before NZTA can advertise or advise of different fee rates. There is some risk the regulation change processes could take longer than anticipated, which would make it difficult to get advance notice out for some customers. However, seeking Cabinet decisions as part of GPS 2024 work should ensure we get this work underway with enough time to ensure implementation is smooth.

111. A communication plan will be required to message any changes to New Zealanders. NZTA will be responsible for communicating specific changes with vehicle owners. The details of this will be worked through, but it will include clear invoicing and information online.

How will the new arrangements be monitored, evaluated, and reviewed?

112. NZTA plays the most significant role in overseeing these changes and will be able to assess how the implementation goes. Information about compliance with registration and licensing rules will offer insight into the impact of changes. Local Councils and Police may also have compliance and/or penalties information that will be useful to understand the impact of changing the licence fee rates.

113. A successful transition to new licence rates will require clear communication with vehicle owners about what and why they are paying – and public comment, media and correspondence will be a key indicator of how well this happens.

114. The level of revenue collected from licence fees will be monitored through usual Crown monthly revenue reporting.

115. Beyond these factors, this specific change doesn't need to be monitored on its own merits, as it does not involve complex change to land transport revenue levers. While specific impacts may be exacerbated, it is not changing them as such. Broader work is underway about different ways we might pay for land transport in future, and this will require a longer-term plan for how we monitor the effects of any system-level changes.

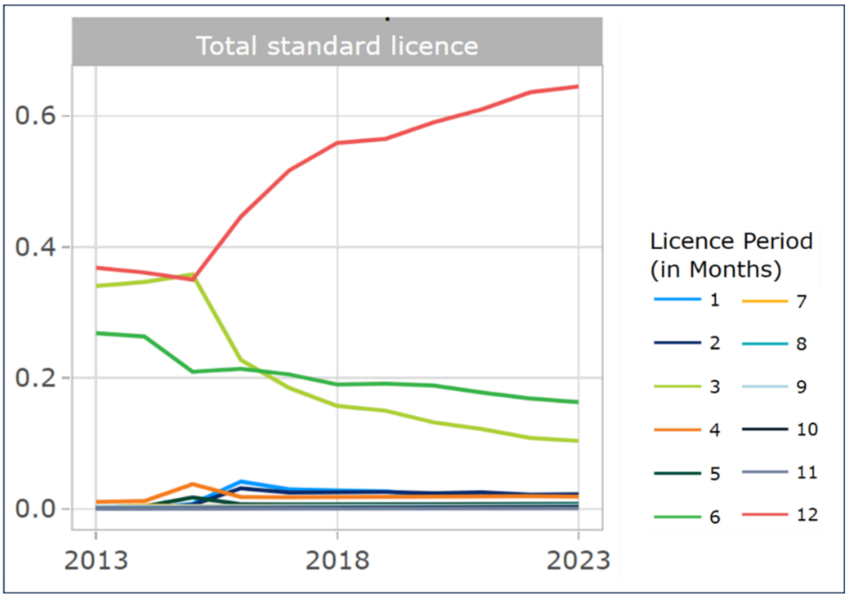
Understanding these charges as part of broader and longer-term transport and infrastructure costs will be important.

Vehicle owners may respond to the proposed increases in different ways

116. Some consideration has been given to how vehicle owners may respond to the changes, but this is not known in any great certainty. It is possible that some people will pay for shorter licence periods in the lead up to the changes, and then purchase a new 12-month licence just prior to the increase to avoid paying the higher rates for longer. The increased cost may also mean more licences are purchased for a shorter timeframe.

117. This kind of purchasing behaviour is evident in the data from when the ACC motor vehicle levies (paid on the same invoice) were decreased in 2016.[21] Trends show an increase in shorter licence periods purchased prior to the change in price, so that they could make the most of the reduced rate (as per the chart below). The same could happen (in reverse) with these changes to fees. However, the overall impact on revenue is likely to be minimal.

Graph two: Ratio of licence periods



21 https://www.beehive.govt.nz/release/450m-acc-levy-reductions-confirmed-201617