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Autumn Statement 2022: Vehicle Excise Duty

Summary

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Summary

Vehicle Excise Duty (VED) is a tax charged on all non-exempt "mechanically propelled vehicles" used or kept on public roads, as legislated in the Vehicle Excise and Registration Act 1994, as amended. The Office for Budget Responsibility (OBR) explains that the Driver and Vehicle Licensing Agency (DVLA) collects VED, rather than HM Revenue and Customs (HMRC).

Broadly speaking, there are three different rate schedules for cars, outlined in the DVLA's V149 VED rates document. For cars that are first registered on or after 1 April 2022, their VED rate is dependent on the car's carbon emissions for that year (this is the 'first year rate'). For cars first registered on or after 1 April 2017, VED is charged at a yearly flat rate (currently £165) for all petrol and diesel cars. Cars registered between 1 March 2001 and 31 March 2017 are charged VED on a yearly basis based on the car's emissions rate. Cars with a list price above £40,000 pay a surcharge (the 'expensive car supplement'), currently set at £355, for the first five years following the first year of registration.

Electric cars are currently exempt from VED altogether, including the expensive car supplement.

Autumn Statement 2022 policy changes

In the 2022 Autumn Statement, Chancellor Jeremy Hunt announced that, from 2025, electric vehicles will not be exempt from paying VED anymore. The exemption for electric vehicles from the expensive car supplement will also be abolished. The OBR estimated that abolishing these exemptions will raise £1.6 billion a year by 2027/28, as shown in HMRC's Tax Information and Impact Note on VED.

Statutory provision for this is made by Clause 10 of the Finance Bill 2022-23. The Bill was published on 21 November 2022, and it passed its second reading took place on Monday 28 November 2022.The Committee of the Whole House and remaining stages are set to take place place on Wednesday 30th November, as announced by Leader of the House Penny Mordaunt in her Business Statement on 24 November.

Commentary

Whilst most attention has been given to other elements of the Autumn Statement, there has been discourse surrounding the announcements on VED.

The BBC reported that Kia, Ford, and Nissan shared concerns surrounding the withdrawal of the exemption. Conversely, the Financial Times reported a representative of the RAC saying removing the exemption was unlikely to be a key element for consumers choosing a vehicle.

Electric vehicles and VED

The sale of electric vehicles (EVs) and low-emissions vehicles is steadily rising, as reported by the OBR as part of the March 2022 Economic and Fiscal Outlook. This means that, overall, VED receipts are falling as a share of GDP. The Government's plan to ban the sale of new petrol and diesel cars by 2030 (announced in November 2020) means that, without any further reforms to the structure of the tax, VED receipts will dwindle. The OBR has said in its March 2022 Economic and Fiscal Outlook that "the largest single long-term fiscal cost of successful decarbonisation is the loss of revenue from motoring taxes". The Transport Committee has recommended the Government to replace fuel duty and VED with a different tax, proposing road pricing as an alternative in an inquiry report (PDF). The Climate Change Committee has added in its 2022 Report to Parliament (PDF) that, although progress had been made on emission reduction, the Government had not outlined how it sought to raise an alternative source of revenue to replace VED and fuel duty.

Background and development of VED

Originally introduced in 1889, VED has undergone a number of significant changes in terms of the ringfencing (or lack thereof) of VED revenue, its administration, and its structure.

Originally, VED was charged according to weight of the vehicle (provision for this was made in the Locomotives on Highways Act 1896), then its horsepower (announced in the 1909 Budget).

The Labour Government in 1998 proposed that the rate of VED should not be a flat charge but based on a vehicles' grams of carbon dioxide emitted per kilometre (gCO_2/km), to incentivise the purchase of more environmentally friendly vehicles. This was formally announced in the 1999 Budget. The Labour Government also introduced a one-off first year rate, also graduated according to a vehicle's carbon emissions. This was included in the 2008 Budget (PDF).

Whilst the first year rate was maintained, changes to the structure of VED were announced in 2015 by the Conservative Government: from the second year on, VED was charged at a flat rate for all types of cars regardless of their gCO_2/km. An exemption applied to cars that emitted zero gCo2/km (such as electric cars). The Government also introduced an additional rate (known as the 'expensive car supplement' of £310 for five years following the first year, on cars with a list price above £40,000. Detail of this was included in the 2015 Budget report (PDF).

Further reading

- The Library briefing on VED has detailed information about the background and development of the tax
- The Library briefing on electric vehicles and infrastructure provides further information on electric vehicles, including policies and investments employed by the Government to support their increased use.
- The Transport Committee inquiry on road pricing (PDF), published on 4 February 2022
- The Transport Committee inquiry on zero emission vehicles (PDF), published on 18 July 2021, and the Government response (PDF), published on 25 October 2021
- An article from the Guardian on road pricing is a helpful explainer on the wider issue of finding revenue to replace motoring tax revenue
- The explanatory notes to the Finance Bill 2022-23 (PDF – particularly Clause 10 which relates to VED)

1 Background to Vehicle Excise Duty

In the UK, there are two taxes on motoring: fuel duty, and Vehicle Excise Duty (VED). VED is a tax charged on a "mechanically propelled vehicle that is [...] used, or kept, on a public road in the United Kingdom", according to the Vehicle Excise and Registration Act (VERA) 1994.[1] The Driver and Vehicle Licensing Agency (DVLA) collects VED receipts, rather than HM Revenue and Customs (HMRC).[2]

VED is levied annually. It is chargeable on all vehicles except exempt ones, which are listed in Schedule 2 of the VERA 1994.[3]

1.1 Current rates and forecasts

The rate of VED charged on a vehicle will depend on the type of vehicle, when the vehicle was first registered, the type of fuel the vehicle uses, and the vehicle's rate of carbon emissions.

Broadly speaking there are three different rate schedules for cars: for new cars, that are registered on or after 1 April 2022 (to determine the first-year rate); for cars registered on or after 1 April 2017 (to determine the standard rate); and, for cars registered on or after 1 April 2001 but before 1 April 2017, for which a separate VED system (tied to carbon emissions) applies.[4]

The DVLA publishes full details in its V149 document on vehicle tax rates. This excludes VED rates on Heavy Goods Vehicles, which is published in DVLA's V149/1 document.[5]

For the current tax year (2022/23), the first year rates of tax on new petrol and diesel cars range from £0 (for cars with zero emissions) up to £2,365 for cars with emissions over 255gCO/km.[6] The standard rate for petrol and diesel cars is £165 per year and £155 per year for alternative fuel cars.

An example of how this works is provided in Box 1.

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[1] Vehicle Excise and Registration Act (VERA) 1994, as amended

[2] Driver and Vehicle Licensing Agency (DVLA) website (accessed on 28 November 2022)

[3] VERA 1994, as amended, sch 2

[4] GOV.UK, Vehicle tax rates (accessed on 29 November 2022)

[5] Driver and Vehicle Licensing Agency (DVLA), Vehicle tax rates (V149 and V149/1), GOV.UK, 22 November 2022 (accessed on 25 November 2022)

[6] DVLA, Rates of vehicle tax for cars, motorcycles, light goods vehicles and private light goods vehicles (PDF), 22 November 2022 (accessed on 24 November 2022)

1 Example of VED payable on a car

A car is first registered on 10 June 2022. It runs on petrol, emits 95 gCO_2/km, and its list price was £45,000. VED is paid on the following:

- First year rate (for cars first registered on or after 1 April 2022 that emit between 91 and 100 gCO_2/km and use petrol): £150
- Standard rate (for all petrol and diesel cars registered on or after 1 April 2022), levied every year: £165
- Expensive car supplement (for all non-electric cars that have a list price above £40,000), levied for five years following the first year rate: £355

Therefore, the owner of this car would pay £150 in year 1 (the first year rate), £520 from year 2 to year 6 (the standard rate plus the additional charge), and £165 from year 7 onwards (the standard rate).

There are separate rates of VED for motorcycles, light goods vehicles, and heavy goods vehicles (HGVs).

VED, like many excise duties, is uprated each year in line with the Retail Price Index inflation rate from September previous, in absence of a specific policy saying otherwise.[7]

The Office for Budget Responsibility (OBR) has stated in the March 2022 Economic and Fiscal Outlook that VED would raise £7.3 billion in 2026/27, down from £7.4 billion forecast for 2025/26.[8] Whilst the cash income of VED is somewhat increasing year-on-year, it is falling as a share of GDP. In 1990/00, VED receipts represented 0.46% of GDP, whereas it is forecast to be 0.25% of GDP by 2026/27.[9] This shows VED receipts decreasing in real terms.

[7] HM Treasury, Autumn Statement 2022 Policy Costings (PDF), GOV.UK, November 2022, Annex A, p71

[8] OBR, Vehicle excise duty [Online], March 2022

[9] As above

2 Autumn Statement 2022

During the 2022 Autumn Statement, Chancellor Jeremy Hunt announced changes to VED:

> Because the OBR forecasts that half of all new vehicles will be electric by 2025, to make our motoring tax system fairer, I have decided that from then electric vehicles will no longer be exempt from vehicle excise duty.[10]

The Treasury added that the measure "will ensure that all motorists begin to pay a fairer tax contribution."[11] The changes outlined in HMRC's Tax Information and Impact Note mean that, from 1 April 2025:

- Owners of electric cars registered on or after 1 April 2017 would pay the lowest VED first year rate (currently £10) and then move to the standard rate from the second year (currently £165 a year).
- Owners of electric cars registered between 1 March 2001 and 31 March 2017 would have their car moved to Band B of the current system, and would incur a yearly charge of £20.
- From 1 April 2025, owners of electric cars would be liable to pay the expensive car supplement (currently £355) if the list price of their vehicle will be over £40,000 currently.[12]

The Treasury Policy Costings document has estimated that the "[equalisation] of treatment of electric and internal combustion engine vehicles from April 2025" will raise the Treasury £515 million in 2025/26, rising to £1.6 billion in 2027/28.[13]

HMRC's TIIN said that Schedule 2 of the Vehicle Excise and Registration Act 1994 would be amended to end the VED exemption for electrically propelled vehicles. The TIIN also specified that the removal of the VED exemption would also apply to electric cars registered prior 1 April 2025.[14] The expensive car supplement exemption would end with an amendment to Schedule 1. This will begin applying to cars first registered on or after 1 April 2025.[15]

10 HC Deb 17 November 2022, c846

11 HM Treasury, Autumn Statement 2022 (PDF), November 2022, p17

12 HM Revenue and Customs, Introduction of Vehicle Excise Duty for zero emission cars, vans and motorcycles from 2025 [Online], GOV.UK, 21 November 2022 – equivalent changes are made for electric vans and motorcycles

13 HM Treasury, Autumn Statement 2022 Policy Costings (PDF), GOV.UK, November 2022, p24

14 HM Revenue and Customs, Introduction of Vehicle Excise Duty for zero emission cars, vans and motorcycles from 2025 [Online], GOV.UK, 21 November 2022

15 As above

On 22 November, the Government published the Autumn Finance Bill 2022-23. Clause 10 of the Bill amends the VERA Act 1994 which would remove the VED exemption for electrically propelled vehicles. The Clause would also amend Schedule 1 of the 1994 Act so that electric vehicles will no longer be exempt from the expensive car supplement for vehicles of a list price above £40,000. The explanatory notes published with the Bill add that "these changes will bring the rates for low and zero emission cars, vans and motorcycles in line with petrol and diesel vehicles."[16]

The second reading of the Bill took place on Monday 28 November 2022.[17]

An amendment in the name of the Leader of the Opposition Keir Starmer was selected for debate. It was moved by Shadow Financial Secretary James Murray. The amendment sought to move the House to "decline to give a second reading to the Finance Bill."[18] The House divided on this amendment, which fell 289 to 216 votes.[19]

During the second reading, Exchequer Secretary James Cartlidge said that the introduction of VED on electric vehicles was introduced to "ensure that all motorists start to make a fairer tax contribution." He also added that "the motoring tax system will continue to provide generous incentives to support electric vehicle uptake."[20] Clause 10 was addressed by Matt Western (Labour), who was concerned that introducing VED on electric vehicles would risk "stalling the entire electric vehicle industry", adding that the introduction of the expensive car supplement would "unduly penalise more expensive vehicle technologies when we should be ensuring the sector expands and is successful."[21] Concluding the second reading debate, Financial Secretary Victoria Atkins said that the UK had 7 million electric vehicles, with an expectation the number will be rising in the future – she said that "it is right that electric vehicle drivers contribute towards the upkeep of roads."[22]

The House then divided on the second reading of the Bill, which passed 290 to 47 votes.[23]

The Committee of the Whole House and remaining stages are set to take place on Wednesday 30th November, as announced by Leader of the House Penny Mordaunt in her Business Statement on 24 November.

[16] Explanatory Notes to the Finance Bill 2022-23 (PDF), p21
[17] HC Deb 28 November 2022, cc691-748
[18] As above, c699
[19] As above, cc742-745
[20] As above, c698
[21] As above, c718
[22] As above, c741
[23] As above, cc746-748

2.1 Commentary

The announcement that VED would begin applying to electric cars from 2025 was not particularly raised by Members during the Autumn Statement, or since. A majority of the debate addressed other elements of the Statement.[24]

City A.M. reported on 23 November that car insurance comparison firm Forbes Advisor estimated that if electric vehicles were to pay the same amount of VED as petrol or diesel cars, the cost could amount to £89.5 million per year. This does not take into account the likely uprating of VED in future years, which would bring the standard rate higher than the current £165. A spokesperson for Forbes Advisor said that the end of the exemption for electric vehicles, united to a planned increase in fuel duty, meant that the Autumn Statement brought "an unhappy package of measures for drivers, whatever type of car they drive." He also noted that the introduction of VED on electric vehicles was a "logical move for an administration hungry for revenue."[25]

Additionally, the Financial Times reported reactions from other industry representatives; whilst some (such as Ralph Palmer from lobby group Transport & Environment) said that introducing VED on electric vehicles could stifle the progress made on electrification, others (such as Nicholas Lyes of the RAC) have said that removing the exemption was unlikely to be a key element in vehicle choice.[26] The BBC reported that representatives from Kia, Ford, and Nissan had shared concerns about the withdrawal of the incentive on EV sales.[27]

When asked about VED during the Autumn Statement, Chancellor Jeremy Hunt said that VED on electric vehicles would be introduced when half of all car sales would be of EVs, adding that "it asks people who have electric cars for £165 a year. Given that we have spent £2.5 billion on electric car charging points, I do not think that that is an unreasonable request."[28]

Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders (SMMT), said that a framework is needed to encourage consumers and business to buy EVs. He added that, aside from the increase in VED on EVs, there was concern about the abolishment of the expensive car

[24] HC Deb 17 November 2022, cc856-893

[25] Grasso Macola I, "EV owners could foot a total bill of £169.5m a year in road taxes after excise duty introduction" [Online], City A.M., 22 November 2022

[26] Campbell P, "UK electric vehicle owners to pay car tax from 2025" [Online], Financial Times, 17 November 2022

[27] Austin K, "Taxing electric cars 'short-sighted' say manufacturers" [Online], BBC News, 18 November 2022

[28] HC Deb 17 November 2022, c875

supplement exemption for EVs, which he said “will unduly penalise these new, more expensive vehicle technologies.”[29]

[29] Society of Motor Manufacturers and Traders press release, SMMT reaction to Autumn Statement 2022, 17 November 2022

3 VED and electric vehicles

Currently, vehicles that emit 0gCO_2/km do not pay any VED. This means that electric vehicles are not liable to pay VED. Concurrently, the amount of new electric vehicles being purchased has been steadily increasing.[30] This is an intended consequence of VED policy – namely, encouraging the take-up of more environmentally friendly vehicles. However, without increasing the amount of tax paid by non-electric vehicles, this trend will mean VED receipts will continue falling in real terms in future years. The OBR has produced a chart in its fiscal risks and sustainability report which shows the correlation between electric vehicles as a percentage of total vehicle stock, and receipts of fuel duty and VED. [31]

The OBR has said in an explainer as part of its March 2022 Economic and Fiscal Outlook that "the largest single long-term fiscal costs of successful decarbonisation is the loss of revenue from motoring taxes."[32]

The UK Government announced in 2020 that the sale of new petrol and diesel cars and vans would be banned from 2030. All new cars and vans will have to be fully zero emission from 2035.[33] Prior to the announcements made in the 2022 Autumn Statement this would have meant that, all things staying equal, receipts from fuel duty, and from VED would have sharply reduced.

In the July 2022 Fiscal Risks and Sustainability report, the OBR identifies fuel duty and VED as major fiscal costs of decarbonising the UK economy. The OBR estimated that the "loss of existing emissions-related tax revenues" would amount to £39 billion a year, or 1.6% of GDP – fuel duty and VED account for over 90% of that estimate.[34] Under OBR assumptions, "the vehicle stock will be 95% electric by 2042, 99% by 2046, and fully by 2050" – estimating VED and fuel duty receipts falling to zero by then.[35] In its inquiry on road pricing, the Transport Committee also said that under the current system of fuel duty and VED, the revenue from these taxes would reduce to zero over the next

[30] OBR, The transition to electric vehicles [Online}, July 2021

[31] OBR, Fiscal risks and sustainability (PDF), July 2022, p140

[32] OBR, What does faster take-up of electric cars mean for tax receipts? [Online], March 2022

[33] Department for Transport, Office for Low Emission Vehicles, Department for Business, Energy and Industrial Strategy press release, Government takes historic step towards net-zero with end of sale of new petrol and diesel cars by 2030, GOV.UK, 18 November 2020

[34] OBR, Fiscal risks and sustainability (PDF), July 2022, p104 - The Office for Budget Responsibility used to write Fiscal Risks Reports (FRRs) and Fiscal Sustainability Reports (FSRs). In the introduction to the July 2022 fiscal risks and sustainability report (PDF), the OBR writes that "in the January 2022 update to the Charter for Budget Responsibility, Parliament amended the OBR's remit to give [them] greater discretion to determine the content of [their] annual sustainability report, which has previously alternated each year between the FSR and the FRR)." The OBR has therefore written their first Fiscal risks and sustainability report (FRS) in July 2022.

[35] As above, p140

twenty years.[36] Additionally, the Climate Change Committee has said in its 2022 progress in reducing emissions report that there are gaps in Government action on replacing VED and fuel duty, saying that "the Treasury has not set out how it intends to raise alternative sources of revenue."[37]

3.1 Transport Committee: Alternative motoring taxation

In light of consistent analysis saying that the decarbonisation of driving would lead to substantial loss in tax revenue, the House of Commons Transport Select Committee produced a report on road pricing in January 2022.[38] The Committee recommended that the Government reformed motoring taxation given the expected fall in revenue obtained from fuel duty and VED. The Committee said that a broad range of respondents to their inquiry supported, in principle, the idea of road pricing to replace VED and fuel duty. Road pricing would involve "direct charges levied on motorists for driving on public roads."[39] The then Chair of the Transport Committee, Huw Merriman, said at the time of the report's publication that "innovative technology could deliver a national road-pricing scheme which prices up a journey based on the amount of road [...] used. [...] We can deliver for the driver and for the environment."[40] The Government has not responded to this report yet.[41] During a Liaison Committee meeting on 6 July 2022, Huw Merriman asked the then Prime Minister Boris Johnson whether he would consider road pricing (a taxation on per mile driven) as a way to raise the revenue that would eventually be lost from VED and fuel duty. At the time, Mr Johnson said that the Government would eventually have to consider road pricing, adding that a substitute for fuel duty would need to be considered.[42]

[36] Transport Committee, Road pricing, 25 January 2022, HC 789

[37] Climate Change Committee, Progress in reducing emissions – 2022 Report to Parliament (PDF), June 2022, p464

[38] As above

[39] As above, para 1

[40] Transport Committee, Road pricing: Act now to avoid £35 billion fiscal black home, urge MPs [Online], parliament.uk, 4 February 2022

[41] UK Parliament, Reports, special reports and government responses – Transport Committee, parliament.uk (accessed on 28 November 2022)

[42] Liaison Committee, Oral evidence: The work of the Prime Minister, 6 July 2022, HC 453 2022-23, Q88-97

4 Appendix: Brief history of VED

A tax similar to VED was first introduced in Britain in 1889. In 1909, Chancellor David Lloyd George ringfenced revenue raised through VED to the maintenance of the road network. Originally, revenue raised through VED was hypothecated to the upkeep of public roads– this ended in 1937 following the enactment of the Finance Act 1936.[43] Section 1 of the Library briefing on hypothecated taxation has more detail on this.[44]

Throughout its early existence, VED was graduated based on factors such as weight of the vehicle,[45] or horsepower.[46] In 1998, the Labour Government announced it would graduate VED according to grams of CO_2 emissions per kilometre (gCO_2/km), meaning that the more polluting the vehicle, the more expensive VED would be. The aim of this was to incentivise drivers to purchase less polluting vehicles. Vehicles were distributed across four bands according to their gCO_2/km emissions.[47] The number of bands steadily increased to reach 13 with the 2008 Budget.[48] In 2009, the Labour Government also announced the introduction of a first-year rate from 2010.[49]

The Conservative Government in 2015 announced significant changes in VED for cars. Following the first year rate (which would be charged according to the vehicle's gCO_2/km), VED was levied yearly at a flat rate of £140 for all vehicles except those that emitted zero gCO_2/km. Owners of vehicles with a list price above £40,000 would incur an additional charge (the 'expensive car supplement') of £310 per year for the first five years where they paid standard rate. Electric vehicles were classed as exempted from the additional charge as well.[50]

These changes started applying to cars registered on or after 1 April 2017.[51]

The Library briefing on Vehicle Excise Duty has more information on this.[52] Although the paper was last updated in 2017, it provides with a thorough history and background information on VED.

43 Newbery D M and Santos G, "Road Taxes, Road User Charges and Earmarking" [Online via Wiley], Institute for Fiscal Studies, Vol 20 n 2, 1999, p107
44 Commons Library Briefing CBP-1480, Hypothecated taxation (27 September 2011)
45 Locomotives on Highways Act 1896
46 HC Deb 29 April 1906, cc495-498 and cc502-503
47 HM Treasury, Budget 1999, March 1999
48 HM Treasury, Budget 2008, March 2008, paras 6.27-6.29
49 As above, paras A97-A101
50 HM Treasury, Summer Budget 2015 (PDF), GOV.UK, July 2015, para 2.145
51 DVLA, Vehicle tax (VED) changes – information for the motor industry, GOV.UK, 5 July 2016
52 Commons Library Briefing CBP-1482, Vehicle Excise Duty (VED), 23 November 2017