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BRIEFING PAPER

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Vehicle Excise Duty (VED)

By Louise Butcher

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Contributing Authors: Louise Butcher, Transport Policy

Summary

This briefing paper explains the policies of successive governments towards the setting and design of vehicle excise duty (VED) for cars and other vehicles. It gives information as to the exemptions from payment and how the Government enforces its collection. It also describes the most recent change to VED: those introduced for new vehicles from April 2017 and those affecting diesel vehicles from 2018.

Motoring taxation is made up of two elements: vehicle excise duty (VED) – a tax on ownership; and fuel duty – a tax on use. Although historically the road fund tax was considered a hypothecated tax to pay for the building and maintenance of the road network, this has not been so since 1937 and it is now a general revenue raising tax. Changes to the rates and coverage of the duty are made in the annual *Finance Acts*.

The Labour Government introduced a new system of VED, based primarily on carbon dioxide emissions, for cars registered on and after 1 March 2001. This 'graduated' scheme was extended in May 2009 and a new 'first year rate' was introduced.

The Coalition Government introduced a road user levy for vehicles weighing more than 12 tonnes from 1 April 2014 accompanied by a VED rebate, and from 1 October 2014 it abolished the paper tax disc, with minor knock-on changes for the VED rules.

In the first Budget of the Conservative Government in July 2015 the Chancellor announced a further reform of VED from April 2017, which effectively abolished the graduated system *for new cars registered after that date*. From the 2020-21 financial year income from VED in England will be hypothecated to a new road fund, to contribute towards the costs of the Strategic Road Network (SRN). In the 2017 Autumn Budget the Chancellor announced new VED rates for the most polluting diesel cars, to take effect in 2018.

All rates can be found in DVLA leaflet V149.

Other research briefings on fuel duty, tax and roads-related issues can be found on the Parliament website.

1. Brief history of vehicle taxation

Motoring taxation is made up of two elements: vehicle excise duty (VED) – a tax on ownership; and fuel duty – a tax on use. Over the years the balance of taxation has shifted towards fuel duty and the policy of successive governments has been to charge duty on road fuels at rates which will not only raise sufficient revenue but also take account of the need to conserve finite stocks of fuel and protect the general environment.[1] Although historically the road fund tax was considered a hypothecated tax to pay for the building and maintenance of the road network, it was often raided for other purposes and became a general revenue raising tax in the 1930s.

VED is a fixed annual tax and is charged on every "mechanically propelled vehicle" used or kept on a public road (defined as "a road which is repairable at the public expense"), as set out in the *Vehicle Excise and Registration Act 1994*, as amended. Any person who uses or keeps on a public road any vehicle (apart from one of an exempted class) for which an excise licence is not in force, or for which they do not have a statutory off road notice (SORN), commits an offence under section 29 of the 1994 Act. Changes to the rates and coverage of the duty are made in the annual *Finance Acts*.

Over the years, there has been pressure from various organisations for governments to be more proactive and to use VED as a means of encouraging, or more recently 'nudging' certain behaviour, such as the use of more environmentally friendly vehicles. The two most frequently suggested changes have been the abolition of VED and its replacement by an increased fuel duty, and the introduction of a graduated duty. The Labour Government introduced a graduated rate by linking VED with carbon dioxide emissions in 2001.

The early years

VED was first introduced for four-wheeled motor vehicles on 1 January 1889 by the *Customs and Inland Revenue Act 1888*.[2] The first cars appeared on roads in Britain in the mid-1890s and the concern was to limit and control their use and speed. The *Locomotives on Highways Act 1896* included an additional annual excise duty of two to three guineas, depending on weight. The *Motor Car Act 1903* introduced the numbering and registration of cars from 1 January 1904. All motor cars[3] had to be registered and it was an offence to drive on a public highway in an unregistered vehicle.

Increasingly, concern moved to the state of the roads and the amount of dust generated by car use. In 1906 a Royal Commission proposed increasing motoring taxation and introducing a central road fund.[4] This

[1] HC Library briefings on past and present fuel duty policy are available: SN824, January 2014; SN3015, January 2011; and SN3016, January 2011)
[2] in the legislation, an applicable vehicle was described as: a carriage with "four or more wheels" and that shall be "drawn or adapted or fitted to be drawn by two or more mules, or shall be drawn or propelled by mechanical power"
[3] "light locomotives" as defined in the 1896 Act
[4] *Royal Commission on Motor Cars*, Cd. 3080, 1906, para 74

led the then Chancellor of the Exchequer, David Lloyd George, to announce in his 1909 Budget that the road network would be self-financing. There would be a new graduated tax on cars based on their horsepower and a tax on imported oil and the net proceeds would be spent on the roads:

> If there be any truth at all in Ruskin's sweeping assertion that "all social progress resolves itself into the making of new roads," it must be admitted that we have been lamentably deficient [...] Both the general public and motorists are crying out for something to be done, and we propose to make a real start ... the brunt of the expense at the beginning must be borne by motorists, and to do them justice they are willing, and even anxious, to subscribe handsomely towards such a purpose, so long as a guarantee is given in the method and control of the expenditure that the funds so raised will not merely be devoted exclusively to the improvement of the roads, but that they will be well and wisely spent for that end. For that reason we propose that the money shall be placed at the disposal of a central authority, who will make grants to local authorities for the purpose of carrying out well-planned schemes which they have approved for widening roads, for straightening them, for making deviations round villages, for allaying the dust nuisance, and I should also propose that power should be given to this central authority to set aside a portion of the money so raised for constructing where they think it necessary and desirable, absolutely new roads. Power will be given them not merely to acquire land for that purpose, but also for the acquisition of rights over adjoining lands, which will enable them eventually to bring into being new sources of revenue by taking full advantage of the increment and other benefits derived from the new easements they will be creating for the public.
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> [...]
>
> In Great Britain, private cars, as distinct from hackney carriages (i.e., taxicabs and motor omnibuses) at present pay £2 2s. carriage tax if under one ton in weight, with an additional £2 2s. if between one and two tons in weight, and an additional £3 3s. if between two and three tons, while motor-cycles pay 15s. In Ireland there is at present no tax on motor-cars. I propose to remove that Irish grievance. These duties brought in for the year 1908–9 the sum of £150,569.
>
> I propose to substitute for this a new and increased scale, with graduations, which will come into force next January, for the whole of the United Kingdom, and I have decided to base the scale on the power of the cars and not on the weight. The horse-power will be determined in accordance with regulations made by the Treasury, and in the case of petrol cars with reference to the bore of the cylinders. It will no doubt be somewhat more difficult to ascertain the power than it is to ascertain the weight, but I believe that the plan I am adopting will be on the whole the fairest method of distributing the tax.[5]

The Road Board and the road improvement grant, which financed the Board from the Exchequer, were established in March 1910 by the *Development and Road Improvement Fund Act 1909*.[6] The Road Board

[5] HC Deb 29 April 1909, cc 495-8 and 502-03

[6] summary of the provisions given at Second Reading: HC Deb 6 September 1909, cc906-1042

was replaced by the Road Fund in the *Roads Act 1920*. The Minister at the time, Sir Eric Geddes, stated that from £700,000 a year in 1909 taxation raised from motor vehicles would increase to £8 million a year from January 1921.[7]

The end of hypothecation

Historically the Road Fund was used for the building and upkeep of roads. The Road Fund received the money derived from the taxation of motor vehicles, collected by county councils, and it paid it back to local authorities to finance expenditure incurred on road maintenance. The Fund was in practice never spent in full and was notorious for being raided for other purposes. Hypothecation was formally ended by the *Finance Act 1936*. During a contemporary debate, Winston Churchill remarked on the Fund:

> I am not even going to criticise my right hon. friend's treatment of the Raid Fund—I mean the Road Fund. That is the sort of thing that slips off one's tongue in an unguarded moment, but I agree with the Chancellor that it is a monstrous assertion that any important body of taxpayers should claim proprietary rights over the particular quota of taxation which they contribute, and that all should not be brought into an area freely justiciable by the House of Commons.[8]

From 1 April 1937 the revenues from motor vehicle taxes were paid directly into the Consolidated Fund. The Road Fund had no revenues of its own and was merely an administrator of the grant-in-aid. The Fund itself was not finally abolished until April 1956 via the *Miscellaneous Financial Provisions Act 1955*.

Later arguments for abolition

The abolition of VED was proposed in a November 1978 White Paper by the then Labour Government. It anticipated that a 20 pence-per-gallon increase in fuel duty would be required to make the change revenue-neutral.[9]

In the first Budget of the incoming Conservative Government, in June 1979, the then Chancellor of the Exchequer, Geoffrey Howe, stated that he was reviewing the future of VED.[10] However, Mr Howe announced the following year that he would not abolish it, as per the previous government's proposal. He recited the reasons for this decision in his 1980 Budget speech:

> ... after carefully reviewing the arguments, we decided that that was not a sensible change to make. Even if the tax had gone, the need for a vehicle register would have remained. That is essential to the police and for vehicle control. Much of the form-filling would have continued unabated. We decided that it was much better to keep the vehicle excise duty, but to achieve staff savings by streamlining its administration...[11]

[7] HC Deb 2 December 1920, cc1490-91
[8] HC Deb 23 April 1936, c327
[9] DoT, *The future of vehicle excise duty*, November 1978, p3
[10] HC Deb 12 June 1979, c254
[11] HC Deb 26 March 1980, cc1470-71

The main argument put forward for abolishing VED and raising the money through fuel duty has tended to be that it would encourage the purchase of fuel efficient and environmentally friendly vehicles. According to estimates made by the Institute for Fiscal Studies (IFS) in 1990, the change from taxing ownership to taxing the use of cars would cut car use by eight per cent in a single year.[12] The counter argument was that such a move would increase the costs for firms with high mileage costs and for those living in rural areas, and that there could be inflationary consequences.

More recently, in November 2010 the IFS published the results of the long-running Mirrlees Review of tax reform. As part of its work on motoring taxes this review also questioned whether a tax on vehicle purchase, rather than the annual VED payment, might be better targeted.[13]

Arguments for graduation on environmental basis

Rather than abolish VED, environmental groups have tended to advocate the 'greening' of VED, i.e. dividing it into graduated bands to encourage the purchase of cars that are more environmentally friendly.

In a 1994 report, the Royal Commission on Environmental Pollution argued that although increasing VED might seem an appropriate way of requiring road users to make a payment to cover external costs, it would be better to do this through payments which were associated with use rather than ownership. However, the Commission did feel that VED could be graduated or varied in order to influence behaviour in environmentally beneficial ways.[14] Specifically, the Commission recommended that VED on heavy goods vehicles be graduated according to the emission limits their engines were designed to meet, with further reductions for vehicles meeting tighter, planned emission limits.[15]

The IFS, in contrast, argued that it was difficult to approximate CO2 emissions per kilometre with reasonable accurately, and even if that were possible, there was a further obvious problem with a VED linked to emissions in that it could not be varied by distance driven. VED is a fixed annual tax, and once it has been paid, it has no effect on decisions about how often one might drive a car.[16]

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[12] Mark Pearson & Stephen Smith, *Taxation & environmental policy: some initial evidence* (IFS Commentary No. 19), 1990

[13] IFS, *Tax by design*, November 2010, para 12.3.2

[14] RCEP, *Transport and the environment* (eighteenth report), Cm 2674, October 1994; and: RCEP, *Transport and the environment – developments since 1994* (twentieth report), Cm 3752, September 1997

[15] ibid., para 8.68; the Campaign for Better Transport (then Transport 2000), the Institute for European Environmental Policy, and the RSPB all put forward similar proposals at later dates

[16] IFS, *Options for 1997: the Green Budget*, 1996, p50

2. Car tax

2.1 Labour's policies for linking VED rates to emissions, 1997-2010

After assuming office in May 1997 the Labour Government indicated that it wished to overhaul the VED system to incentivise people to replace their vehicles with more fuel efficient models. The July 1998 transport White Paper said that the Government would introduce a new system of graduated VED for cars from 1999, including a new lower rate of £100 for the smallest and least polluting cars, with the aim of encouraging motorists to take account of environmental impacts when buying new or second hand cars.[17]

In November 1998 the Treasury published a consultation paper seeking views on whether the new system of VED should be set according to bands or structured on a continuous sliding scale. A 'continuous' approach would involve a fixed amount per gram (or per 10g) of CO2 per km, rounded to the nearest £5.[18] The benefits of a banding system were identified as being simpler to administer; allowing slightly more flexibility in setting rate relativities; and potentially incentivising manufacturers of vehicles falling close to a band boundary to reduce emissions.[19]

Budget 1999 confirmed that new cars registered from autumn 2000 would be placed in one of four VED rate bands, according to their carbon dioxide emissions.[20] Details were announced in Budget 2000 and introduced from 1 March 2001: all cars registered for the first time were placed into one of four VED bands based on their rates of carbon dioxide emissions and within each band, there would be a discount rate for cars using cleaner fuels and technology and a small supplement for diesel cars.:

> Newly-registered cars will be placed in one of four VED bands according to their rate of carbon dioxide emissions - the best indicator of their fuel efficiency. Within each band, there will also be a discount for cars using cleaner fuels and technology and a small supplement on diesel cars to reflect their higher emissions of particulates and other local air pollutants. 95 per cent of new cars will pay up to £70 a year less VED under this new system than under the rates for existing cars. The graduated VED system will therefore encourage the purchase of:
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> new cars as opposed to older cars;
>
> cars with lower carbon dioxide emissions and better fuel efficiency; and
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> cars using fuels and technology which are better for local air quality.[21]

[17] DETR, *A new deal for transport: better for everyone*, Cm 3950, July 1998, para 4.125
[18] HM Treasury, *Consultation on reform of Vehicle Excise Duty to ensure a cleaner environment*, 3 November 1998, para 3.11
[19] ibid., para 3.12
[20] HM Treasury, *Budget 1999*, March 1999, para 5.69
[21] HM Treasury, *Budget 2000*, March 2000, para 6.62

A fifth band was announced in *Budget 2002*, a sixth in *Budget 2003*, and a seventh in *Budget 2006*.

The system was overhauled in *Budget 2008*, which announced that from April 2009 all cars would be placed in one of 13 new bands, reflecting more accurately their carbon emissions. Vehicles placed in the higher bands would see a significant increase in their VED rates. The then Chancellor, Alistair Darling, also announced the introduction of a new 'first year' rate from 2010, which could be as much as £950 for the most polluting cars.[22] There was some confusion about the band allocation of the most polluting vehicles, depending on the year in which they were first registered. In May 2008, the Minister clarified the position:

> Cars that emit more than 225 g CO2 per km but were first registered before 23 March 2006 will be placed in Band K in 2009-10—and will continue to benefit from a reduced rate, and only in 2010-11 will these cars be placed into the band (L or M) that corresponds to the car's actual CO2 emissions.[23]

In July 2008 the Treasury released details of the numbers of people that would be affected by the proposed changes to the various VED categories. Overall, the Government estimated that in 2009-10, a third of cars would be "better off in real terms" and 55 per cent of cars would be "no worse off".[24] The Treasury also estimated that "at least 24 out of the 30 most popular car model versions in 2007 will be better off, or no worse off, in 2009 as a result of the reforms announced at Budget 2008".[25]

There was a good deal of debate and controversy surrounding these proposals.[26] In particular, the Conservative Opposition at the time charged that the changes would have a comparatively greater impact on smaller, family cars than they would have on larger vehicles that consumed more petrol such as Humvees or Porsche Cayennes.[27] In June 2008 the then Leader of the Opposition, David Cameron, took up the issue of the VED changes at Prime Minister's Questions.[28]

Following all of this, the Chancellor announced modifications to his proposals in the November 2008 *Pre-Budget Report*. This stated that although the new bands would be introduced as planned from April 2009 and would still affect all vehicles registered after March 2001, in 2009-10 no vehicles would see an increase in VED of more than £5 and

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[22] HMT, *Budget 2008*, HC 388, March 2008, paras 6.27-6.29 and A97-A101
[23] HC Deb 14 May 2008, c1623W; there was also some confusion about what were then Band F and Band G: Band F was introduced by Budget 2003 and Band G by Budget 2006. Band G only applied, therefore, to vehicles first registered after 23 March 2006 that emitted more than 226g CO2 per km. Vehicles emitting 226g CO2 per km registered before 23 March 2006 would come under Band F
[24] HC Deb 9 July 2008, cc1648-1651W
[25] ibid., cc1651-1654W
[26] see, for example: "Higher car tax slammed as green smokescreen", *The Daily Telegraph*, 13 March 2008 and: "Families fall victim to highway robbery", *The Times*, 15 March 2008
[27] HC Deb 14 May 2008, cc1460-1465
[28] HC Deb 4 June 2008, cc765-767

for 2010-11 the maximum amount of increase would be £30.[29] This was confirmed in *Budget 2009*; the *Red Book* stated:

> The 2008 Pre-Budget Report set out reforms to vehicle excise duty (VED) for cars registered from 1 March 2001 onwards, to incentivise the purchase and manufacture of lower-carbon cars. Budget 2009 confirms these reforms, which include:
>
> from May 2009, an increase in the number of VED bands from seven to thirteen. This will provide a greater incentive for drivers to choose a lower-carbon version of car within their preferred class;
>
> from April 2010, the Government will further separate out the thirteen different bands, in order to strengthen the environmental signal; and
>
> from April 2010, differential First-Year Rates of VED for new vehicles will be introduced. These will provide a stronger signal to consumers at the point of purchase.[30]

This announcement was generally welcomed by motoring organisations but questions remained about what would happen after 2010.[31]

2.2 Policies of the Conservatives in government, 2010-

Before the election, in 2007, many of the Conservative Party's policy groups, set up after David Cameron became Party leader, reported. The Quality of Life group's report proposed reworking the vehicle tax system, with the objective of better targeting taxes to help the environment. It stated that VED was poorly targeted and ineffective and proposed replacing it with a purchase tax.[32]

The Conservative-Liberal Democrat Coalition Government did not make any substantive changes to the VED banding system inherited from Labour. It froze VED rates for cars in *Budget 2010*, and increased them by RPI in the following seven years (2011-17).[33]

In terms of wider reform, in *Budget 2012* the Government announced that it would "consider whether to reform VED over the medium term to ensure that all motorists continue to make a fair contribution to the sustainability of the public finances, and to reflect continuing improvements in vehicle fuel efficiency".[34] By *Budget 2013* the policy

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[29] HM Treasury, *Pre Budget Report 2008*, CM 7484, 24 November 2008, paras 7.32-7.37
[30] HM Treasury, *Budget 2009*, HC 407, 2 April 2009, para 7.52 and Tables A8a and A8b
[31] "Gas-guzzler drivers get a reprieve", *The Independent*, 25 November 2008
[32] Conservative Party, *Blueprint for a Green Economy*, September 2007, pp343-344
[33] HM Treasury, *Budget 2010*, HC 61, June 2010, para 2.138; *Budget 2011*, HC 836, March 2011, para 2.135; *Budget 2012*, HC 1853, March 2012, para 2.147; *Budget 2013*, HC 1033, March 2013, para 2.146; *Budget 2014*, HC 1104, March 2014, para 2.152; *Budget 2015*, HC 1093, March 2015, para 2.164; *Budget 2016*, HC 901, March 2016, para 2.163; and *Spring Budget 2017*, HC 1025, March 2017, para 3.23
[34] op cit., *Budget 2012*, para 2.148

was that the Government had "no plans to make significant reforms to the structure of VED for cars and vans in this Parliament".[35]

There were, however, significant administrative changes. The Government's motoring services strategy consultation, published in December 2012, stated that it was "considering the continuing need for the tax disc".[36] *Budget 2013* announced that statutory off-the-road declarations (SORN) would be put onto an indefinite basis to reduce administration costs and the grace period, following the payment of tax, on the non-display of the tax disc in a vehicle would be extended to 14 days.[37]

Also, there were substantive changes to VED for HGVs from 1 April 2014 (see section 3, below) when the HGV road user levy was introduced.

Abolition of the paper tax disc from 1 October 2014

Budget 2014 confirmed the previous announcement in the 2013 Autumn Statement that from 1 October 2014:

- motorists would be able to pay their VED by Direct Debit annually, biannually or monthly, should they wish to do so (a five per cent surcharge will apply to biannual and monthly payments); and
- a paper tax disc would no longer be issued and required to be displayed on a vehicle windscreen.[38]

There was concern that the change was poorly publicised at the time and that drivers were not sufficiently informed of the change and its implications. For example, in a September 2014 survey of 2,000 drivers by the RAC more than a third (36%) of motorists were not aware of the imminent abolition of the need to display the paper tax disc and almost half (47%) were uncertain of when the changes were due to take effect.[39] The DVLA stated that there was information online, "good coverage on social media", and that they were "working with stakeholders and commercial customers to make sure businesses and the public are aware of what the changes will mean for them".[40]

The Government's argument for abolishing the paper car tax disc was as follows:

> The DVLA and police now rely on DVLA's electronic vehicle register and use tools like Automatic Number Plate Recognition to ensure that vehicles are correctly licensed and that VED has been paid. Largely due to electronic enforcement, motorists are better informed of their responsibility to ensure that their vehicles are continuously licensed. Enforcement from the record has helped to improve compliance with non-payment of VED running at a

[35] op cit., *Budget 2013*, para 2.146
[36] DfT, *Motoring services strategy: consultation*, 13 December 2012, p17
[37] op cit., *Budget 2013*, para 2.151
[38] op cit., *Budget 2014*, para 2.154
[39] RAC press notice, "Third of motorists not aware of paper tax disc being scrapped", 18 September 2014
[40] "Drivers 'not adequately warned' over end of tax discs", *The Daily Telegraph*, 27 August 2014

> historical low. Current estimate of VED evasion is 0.6 per cent which implies VED is a tax with which people are very compliant.
>
> As the benefits of a paper vehicle licence, trade licences and nil licence have significantly diminished over time, the Government now believes that the requirement to display a paper licence is redundant.[41]

Section 91 and Schedule 19 of the *Finance Act 2014* abolished the **administrative** arrangements surrounding paper discs, including the rules for how car dealers could claim VED rebates.[42]

The changes to the rules on **display** were made in secondary legislation, the *Vehicle Excise and Registration (Consequential Amendments) Regulations 2014* (SI 2014/2358).

There was some concern as to how car tax evasion would be dealt with where physical tax discs were no longer required. DVLA and the police had long relied on electronic means to find and fine tax evasion (see quotation, above) so as far as they were concerned, there was no obvious negative effect on their enforcement efforts from the abolition of the physical disc.

However, some of the DVLA's information about tax evasion comes from the public who can check online the details of vehicles that they may for example see parked on local streets or in car parks and report those without tax to the DVLA. Since the abolition of the tax disc it has not been as immediately obvious to the public whether vehicles are properly taxed.

Foreign-registered vehicles still have to be able to prove that they are taxed in their home country if stopped by the police, this would mean they would have to show documentation (i.e. a tax disc or similar).

Since abolition there have been ongoing debates about how much this has 'cost' the Treasury in lost income. In response to a June 2015 WPQ on cost savings from the abolition of the tax disc, the Transport Minister, Lord Ahmad of Wimbledon, said that changes to the administration of VED were *expected* to save the DVLA £13.8m each year.[43] In terms of *actual* savings, the only information available relates to the first six months following the abolition of the tax disc between 1 October 2014 and 31 March 2015, in which DVLA saved £4.2 million.[44]

There have been various reports that the abolition of the tax disc has led to a fall in revenue. The Chief Executive of the DVLA, Oliver Morley, wrote to the FT in August 2016 to address this issue. He stated that:

> … while a superficial review of our monthly cash receipts would show a £400m reduction for 2015-16, the annual audited figure showed a reduction of £93m, better than Office for Budget Responsibility forecasts. This decrease, representing only 1.5 per cent of the total revenue raised, comes from three main causes —

[41] *Finance Bill 2014 EN*, clause 85
[42] as set out in section 144 of the *Finance Act 2008* (for an explanation, see *Finance Bill 2008: Explanatory Notes*, p1,091 [clause 138])
[43] HL407, 17 June 2015
[44] HC24557, 1 February 2016

> more efficient vehicles, over 10m direct debits shifting revenue out of the year and an increase in evasion. Of these causes, the scrapping of the tax disc represents by far the minority of the decrease.[45]

The most recent figures show an increase in the number of untaxed vehicles and the amount of revenue lost as a result. The BBC reported:

> The number of unlicensed vehicles on the road has tripled since the paper tax disc was abolished, government figures show.
>
> The data, published every two years, shows that the government potentially lost out on £107m from 755,000 unlicensed vehicles last year.
>
> The RAC said the decision to get rid of the paper tax disc three years ago has proved "costly".
>
> The measure was meant to have saved the Treasury £10m a year, the RAC said.
>
> Figures from the Department for Transport show that 1.8% of vehicles were unlicensed in 2017 compared with 0.6% on 2013.[46]

VED reform and the return of the Road Fund, 2017-

In the *Summer Budget 2015*, the Conservative Government announced plans for a significant reform of the VED banding structure and longer-term plans to recreate the link between vehicle taxation and spending on the road network.

A summary of the new rates can be found on the Gov.uk website.

The *Red Book* stated:

> The government will introduce a new VED banding system for cars registered on or after 1 April 2017. First year rates (FYRs) will vary according to the carbon dioxide emissions of the vehicle. There will be a flat standard rate (SR) of £140 for all cars except those emitting 0 grams of carbon dioxide per kilometre (gCO2 /km), for which the standard rate will be £0. Cars with a list price above £40,000 will attract a supplement of £310 per year for the first 5 years in which the standard rate is paid. The new VED system will be reviewed as necessary to ensure that it continues to incentivise the cleanest cars.[47]

This is a significant change from the current arrangements and it significantly flattens out the banding system for newly-registered vehicles.[48] The then Chancellor, George Osborne, argued that overall the changes were 'fair' and would not affect the rates for vehicles that people owned before 1 April 2017:

> For standard cars—that covers 95% of all cars sold in the UK—the charge will be £140 a year. That is less than the average £166 that motorists pay today. There will be no change to VED for existing cars: no one will pay more in tax than they do today for the car they already own.[49]

[45] "DVLA's audited figures show reduction of £93m", *Financial Times*, 24 August 2016

[46] "Tax disc: Car tax evasion triples after paper version scrapped", *BBC News*, 16 November 2017; the data is available from the Dft, see: *Unlicensed vehicles in traffic (VED01)* and *Lost revenue from unlicensed vehicles (VED03)*, 16 November 2017

[47] HM Treasury, *Summer Budget 2015*, HC 264, July 2015, para 2.145

[48] rates can compared using the current VED rate tables and the proposed new structure

[49] HC Deb 8 July 2015, c327

However, the changes prompted concerns that they could disincentivise the take up of low emission vehicles. For example, Mike Hawes, SMMT Chief Executive, said:

> While we are pleased that zero-emission cars will, on the whole, remain exempt from VED, the new regime will disincentivise take up of low emission vehicles. New technologies such as plug-in hybrid, the fastest growing ultra low emission vehicle segment, will not benefit from long-term VED incentive, threatening the ability of the UK and the UK automotive sector to meet ever stricter CO2 targets.[50]

He also expressed concerns about the impact of the £310 supplement for premium cars on the UK motor manufacturing industry.

In debates on the 2015 *Finance Bill*, which introduced the new system, both the Minister, David Gauke, and the Opposition spokesperson, Rebecca Long-Bailey, set out the pros and cons of the new system:

> **Mr Gauke:** […] In anticipation of remarks I know we will hear from the hon. Member for Salford and Eccles (Rebecca Long Bailey) about vehicle excise duty, let me also turn to amendments 91 to 93 [Labour amendments]. They would require the Chancellor to replace the changes made by clause 42 [i.e. those changes coming into force in April 2017] and introduce a new VED system that addressed none of the challenges of the current VED system. The amendments call for first year rates of VED to be extended to cover the first three years of ownership and thereafter for rates to be based on a shallower graduation of CO2. By continuing to base annual rates of VED on CO2, these amendments would recreate the sustainability challenge of the existing VED system. As new cars become more fuel efficient, more and more ordinary cars will fall into the lower rate of VED bands for their entire lifetime. The changes would also weaken incentives for people to purchase the very cleanest cars. The system Opposition Members propose would therefore need updating regularly to keep pace with technological change. Unless Opposition Members are proposing to retrospectively tax motorists every time the system needs tweaking, an entirely new VED system would need to be created each time. This would create uncertainty for motorists and car manufacturers, something they have repeatedly asked the Government to avoid. These amendments would also mean the VED system remains regressive and unfair for motorists. Poorer families with older, less fuel-efficient cars would still end up paying more tax than richer ones who were able to buy a new car every few years.
>
> In contrast to amendments 91 to 93, the changes made by clause 42 do address the fairness and sustainability problems of the current VED system. These changes base annual rates of VED on a flat rate of £140 for all cars except zero-emission cars, which pay nothing. There will be a standard rate supplement of £310 for cars worth above £40,000 to apply for the first five years in which the standard rate is paid. These changes improve fairness for all motorists and ensure that those with expensive cars pay more than those with ordinary family cars. Those who can pay more will pay more.
>
> They also provide long-term certainty in VED revenues. This supports the creation of the new roads fund so that from 2020 all

[50] SMMT press notice, "SMMT statement: Budget 2015", 8 July 2015

> revenue raised from VED in England will go into the fund. It will be invested directly back into the English strategic road network. The changes made by clause 42 still support uptake of the cleanest cars. They maintain and strengthen the environmental signal where it is most effective in influencing people's choice of car in the highly visible first-year rates.
>
> By returning VED to a flat rate while continuing to support the cleanest cars, clause 42 provides a simple, fairer, more certain and more sustainable long-term solution. It allows for the creation of a new roads fund which will ensure that our roads network will receive the multi-billion programme of investment it needs. I commend clause 42 and urge the house to reject amendments 91 to 93 […]
>
> **Rebecca Long Bailey (Salford and Eccles) (Lab):** […] The proposal dealing with vehicle excise duty relates to rates for light passenger vehicles in the UK and considerably flattens them out by introducing a flat-rate excise charge for every vehicle, regardless of carbon dioxide emissions, from 1 April 2017. First-year rates will continue to be determined by a sliding scale, depending on CO2 emissions. For most greener cars, which emit below 120g of CO2 per kilometre, people will now pay VED of up to £160 in the first year, whereas previously they paid nothing—only zero-emission cars will be liable for zero VED. In subsequent years, there will be a flat-rate of VED of £140 a year. Hon. Members will note that this will result in a substantial VED increase for low-emission cars in the first and subsequent years, while there is a substantial reduction for cars that are less carbon-efficient. Previously, VED for subsequent years was banded, with the more polluting cars paying more—up to £505.
>
> Clearly, over time, the approach being taken strongly benefits more polluting cars, which will pay hundreds of pounds a year less, while greener cars, aside from those with zero emissions, will pay about £100 a year more. To put this into perspective, approximately 445 cars are currently in the top least polluting bands and so pay no VED, as they emit less than 100g of CO2 per kilometre, whereas under the proposed changes only 13 will fall into the exempt category. That represents a significant drop. In addition to those proposals, moves are also being made to additionally penalise vehicles priced at over £40,000 and, over time, there will also be a supplementary rate of £310 for the first five years.
>
> […] we question whether the approach [the Government has] taken … is pragmatic. We do not agree that increasing the duty paid on low-emission cars while decreasing the duty paid on higher-emission cars is the logical solution. The fact that zero-emission vehicles will continue to be exempt from road tax is welcome, but we are concerned that a flat rate of VED, as outlined in this proposal, will mean that low-emission vehicles will pay £800 to £1,000 more over a seven-year period than they do now, while many high-emission vehicles are expected to pay up to £440 less.[51]

The Treasury raised £5.7 billion from VED in 2015-16; it expects this to increase to £6.7 billion by 2021-22.[52] This is in contrast to the estimates

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[51] HC Deb 26 October 2015, cc54-57
[52] HMT, *Autumn Statement 2016*, Cm 9362, 23 November 2016, Table C.5, p58

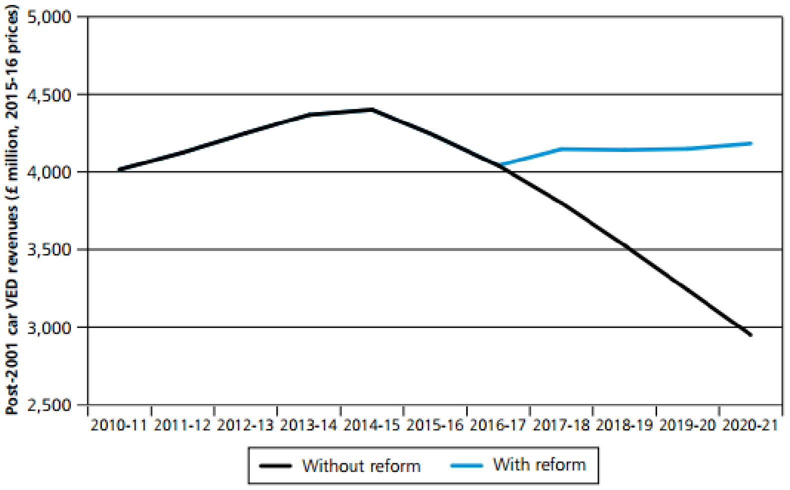
in the March 2015 Budget, which envisaged receipts from VED falling to £5.1 billion by 2019-20.[53]

The other innovation in the Summer Budget was the reintroduction of a 'road fund', by hypothecating the revenue raised from VED in England on the English Strategic Road Network (SRN) from 2020-21.[54] It is not as yet clear whether this will form part of the £15.2 billion already committed to the SRN under the *Roads Investment Strategy*, or whether it will be in addition to that.[55]

These reforms were intended in part to address concerns about the long term viability of VED.[56] In his Budget speech the Chancellor said: "… because so many new cars now fall into the low carbon emission bands, by 2017 over three quarters of new cars will pay no VED at all in the first year. That is not sustainable and it is not fair".[57]

The anticipated impact in shown in the table below:[58]

Chart 1.21: Stabilising car VED revenues through reform



Source: HMRC, drawing on data on scrappage rates and new cars sold provided by DfT

Changes to VED rates for diesel cars, 2018

Roughly a third of nitrogen oxide emissions come from road transport, and levels have remained flat since 2011, despite stricter emissions standards for all vehicles. Older diesel vehicles are significant contributors but not the only cause, as became evident during the 'dieselgate' scandal.

[53] op cit., *Budget 2015*, Table C.3, p110
[54] op cit., *Summer Budget 2015*, para 2.146
[55] more information on the SRN and the Roads Investment Strategy can be found in HC Library briefing paper SN1448
[56] see, e.g. interview with the then Transport Minister, Norman Baker: "Road tax to be scrapped", *Sunday Express*, 23 September 2012
[57] HC Deb 8 July 2015, c327
[58] op cit., *Summer Budget 2015*, Chart 1.21, p57

In 2015 the US Environmental Protection Agency issued a notice alleging that Volkswagen and Audi diesel cars from model years 2009–2015 included software that circumvented emissions standards for certain air pollutants (so-called 'defeat devices') in diesel cars. VW admitted that this software affected nearly 1.2 million UK-registered vehicles. Other manufacturers have also since been implicated.

This led to a worldwide trail of inquiries looking into 'real world' emissions from vehicles across several brands. The best analysis of typical VW cars in real-world driving conditions found NOx emissions of around 0.6g/km, over three times higher than the latest Euro 6 standard of 0.18g/km. [59]

Diesel vehicle owners were angry at the manufacturers' deception and at governments that had encouraged the buying of diesel vehicles in the 1980s and 1990s as part of a strategy to reduce CO2 emissions. They are also likely to be amongst those most affected by measures to address the problem, such as an increase in fuel duty on diesel, changes to the car tax (VED) system, or the introduction of a scrappage scheme.

In the 2017 Autumn Budget the Chancellor, Philip Hammond, froze excise duties on diesel and did not mention scrappage but he did make changes to VED for cars only.[60] In his speech Mr Hammond announced:

> From April 2018, the first-year vehicle excise duty rate for diesel cars that do not meet the latest standards will go up by one band, and the existing diesel supplement in company car tax will increase by one percentage point. Drivers buying a new car will be able to avoid the charge as soon as manufacturers bring forward the next-generation cleaner diesels that we all want to see, and we will only apply the measures to cars. Before the headline writers start limbering up, let me be quite clear: no white van man or white van woman will be hit by these measures. The levy will fund a new £220 million clean air fund to provide support for the implementation of local air quality plans, improving the quality of the air in cities and towns up and down the UK.[61]

The tax information and impact note gave further information:

> Legislation will be introduced in Finance Bill 2017-18 to amend Schedule 1 of VERA, applying a supplement to new diesel cars registered after 1 April 2018. This will apply to new diesel cars which do not meet the standard set out under Annex IIA of Commission Regulation (EU) 2017/1151 for the second stage of Real Driving Emissions.
>
> Cars which are certified as meeting the Real Driving Emissions 2 (RDE2) standard under Annex IIIA of Commission Regulation (EU) 2017/1151 will be exempt from the diesel supplement. This will be set in legislation at a value of nitrogen oxides (NOx) no greater than 80mg/km.
>
> The RDE2 standard sets a maximum permitted level of car NOx emissions in real world driving situations, and it is measured through portable emissions-measuring equipment in a variety of real driving trips. Cars must pass the certified level

An overview of the VW emissions scandal and the wider issues of 'real world' vehicle emissions testing can be found in the Transport Select Committee's July 2016 report *Volkswagen emissions scandal and vehicle type approval*.

[59] "Clean air in our cities", *Second Reading blog*, 20 June 2017
[60] You can read more about the debate on a diesel scrappage scheme in HC Library briefing paper CBP 8091
[61] HC Deb 22 November 2017, c1050

> of NOx emissions irrespective of the driving behaviour during the test - for example, the level of emissions produced when an engine is under stress, say, by driving uphill.
>
> Manufacturers will certify NOx emissions. The certificate of conformity manufacturers produce will record which Euro-standard the vehicle is certified to. Diesel cars registered after 1 April 2018 and certified with a real-world NOx emissions figure greater than the RDE2 standard or without a certified NOx emissions figure will be subject to a supplement to the effect that these cars will go up by one VED band in their First-Year Rate.[62]

As the Chancellor indicated, the income from this tax increase will be earmarked for a new £220 million Clean Air Fund for English local authorities with the most challenging pollution problems. They will be able to use this fund to support people and businesses to adapt as measures to improve air quality are implemented.[63]

Depending on the vehicle CO2 band, the first year rate for new diesels could increase from between £20 (e.g. for a Peugeot 208) to £300 (e.g. for a BMW 6 Series) and £500 (e.g. for a Porsche Cayenne).[64]

Responses to the proposals have been mixed. The Society of Motor Manufacturers and Traders (SMMT) said:

> Diesel buyers will not face any additional taxation for the next six months, but thereafter, will face additional charges which will undermine fleet renewal efforts, which are the best and quickest way to address air quality concerns. Manufacturers are investing heavily in the latest low emission technology, however, it's unrealistic to think that we can fast-track the introduction of the next generation of clean diesel technology which takes years to develop, in just four months. This budget will also do nothing to remove the oldest, most polluting vehicles from our roads in the coming years.[65]

The RAC Foundation said:

> Twelve million drivers will breathe a sigh of relief knowing the Chancellor has not indiscriminately penalised diesel owners for the problems caused by relatively few vehicles, while people in the market for a new, average-sized diesel will probably only pay £20 more under the showroom tax changes.[66]

The Campaign for Better Transport said:

> … the Chancellor has caved into the siren calls from the road lobby at the expense of real action on air pollution. The Clean Air Fund, support for electric vehicles and the tax on new diesels and company cars are welcome and will help, but while fuel duty remains frozen, more roads get built, and there's no real help to

62 HMT, *Vehicle Excise Duty: introduction of the diesel supplement*, 22 November 2017; there is an additional impact note for company cars, see: *Taxable benefits and vehicle excise duty: regime for measuring carbon dioxide emissions*

63 HMT, *Air quality: Autumn Budget 2017 brief*, 22 November 2017, para 8 – it seems likely that these will be those towns and cities who will be implementing clean air zones – for more information see HC Library briefing paper CBP 1171

64 Ibid., end table

65 SMMT press notice, "SMMT response to the Autumn Budget 2017", 22 November 2017

66 RAC Foundation press notice, "Budget 2017 reaction", 22 November 2017

> get rid of old diesels and reduce car use, pollution will continue to lead to thousands of premature deaths.[67]

And ClientEarth said:

> The Chancellor has shied away from taking real action. While we welcome the changes to Vehicle Excise Duty, they do not go anywhere near far enough. An extra twenty pounds for a new car is not going to put anyone off buying a diesel car. The Chancellor has squandered a golden opportunity to send a strong message to drivers and manufacturers to ditch diesel.[68]

More generally, he also announced that VED rates would rise by RPI across the board in 2018.[69]

2.3 Cars registered between January 1973 and March 2001

When the Labour Government changed the way that VED was calculated for all new cars in 2001 it left a legacy group of vehicles under the old system. These have since been split into two groups, designed to ensure that smaller vehicles pay a reduced rate. The general principle of the planned reform was set out in Labour's 1998 transport White Paper:

> We will extend our reform of vehicle excise duty by introducing a new system of graduated VED for cars from next year, which will include a new lower rate of £100 for the smallest and least polluting cars. We will consult on the details shortly. Our aim is to encourage motorists to take account of environmental impact when buying new or second hand cars. In the meantime, we have frozen VED for cars and lorries, representing a fall in real terms, and helping to shift the burden of taxation from car ownership to car use. The freeze on VED for lorries should also help maintain the competitive position of UK hauliers and partly offset the impact of higher fuel duty. [70]

Originally, the reduced rate of VED was first introduced for cars under 1,100cc on 1 June 1999.[71] At the time the DVLA wrote to all those who would benefit from the lower rate, inviting them to re-licence their car at the reduced rate. They were sent a form setting out how much remained on their current licence and arranging for a refund. They could then surrender the old licence and buy a new one at the lower rate. This offer was limited to June 1999 when it was estimated that 1.8 million drivers benefited at a cost of £85 million a year.[72]

In *Budget 2000* it was announced that from 1 March 2001 the reduced rate for smaller-engined cars would be extended for cars up to 1,200cc.

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[67] CBT press notice, "Transport investment and youth railcard welcomed but budget puts diesel drivers ahead of children's lungs", 22 November 2017

[68] ClientEarth press notice, "Chancellor "has shied away from taking real action" on diesel in Budget", 22 November 2017

[69] HMT, *Vehicle Excise Duty: rates for cars, vans, motorcycles and motorcycle trade licences from April 2018*, 22 November 2017

[70] op cit., *A new deal for transport: better for everyone*, para 4.125

[71] op cit., *Budget 1999*, para 5.69

[72] HM Treasury press notice, "Reform of vehicle excise duty to protect the environment", 9 March 1999

The arrangements were backdated to March 2000 and owners of qualifying cars automatically received a rebate in March 2001. The reduced rate applied to 2.2 million cars at a cost of £129 million a year.[73] In the *Pre-Budget Report 2000*, the then Chancellor, Gordon Brown, proposed extending the scheme to cars with engine sizes up to 1,549cc inclusive from July 2001. It was estimated that five million car owners would be affected at a cost of £250 million a year.[74] The arrangements were backdated for licences taken out after November 2000 at a further cost of £100 million, but rebates were only available to licences taken out after the Chancellor's announcement, not to everyone with a vehicle licence. Thus anyone taking out a car licence in August 2000 did not benefit until a new licence, at the reduced rate, was introduced in August 2001.

2.4 Classic vehicles

Until 1996 VED was charged at a preferential rate, equal to one half of the rate charged on ordinary vehicles, on old cars and old motorcycles. Cars built before 1947, and motorcycles built before 1933, were charged this concessionary rate.

In 1995 the Conservative Government published a consultation paper with the intention of introducing 'continuous licensing'. The paper also stated that the then Chancellor of the Exchequer, Ken Clarke, would bring forth proposals in the following year's *Finance Bill* so that all cars and motorcycles licensed for use on the road and constructed before at least 1960 would qualify for a reduced rate of VED.[75] In the November 1995 Budget the Chancellor announced that cars, light vans and motorcycles over 25 years old would be exempt from VED.[76] This is usually referred to as the 'rolling exemption'.

In *Budget 1998* the Labour Government abolished the rolling exemption for older vehicles by limiting future exemptions to vehicles made before 1 January 1973.[77] As at 30 September 2011 there were 162,734 cars and 152,836 other vehicles that were registered before January 1973 which were exempt from VED.[78]

Having extended the cut-off date for the classic vehicle exemption to 1 January 1974 in *Budget 2013*,[79] in *Budget 2014* the Coalition Government announced the introduction of a 40-year 'rolling exemption' from 1 April 2014.[80] This was legislated for in sections 84 and 85 of the *Finance Act 2014*.

[73] op cit., *Budget 2000*, para 6.60
[74] HM Treasury, *Pre-budget Report 2000*, November 2000, para 6.58
[75] DoT, *Continuous licensing: a consultation paper*, March 1995, p3 [HC DEP 1393]
[76] HC Deb 28 November 1995, c1064; this became Schedule 2, para 1A of the *Vehicle Excise and Registration Act 1994*
[77] HMT press notice, "New vehicle excise duty system to protect the environment", 17 March 1998; legislated for in section 17 of the *Finance Act 1998*
[78] HC Deb 22 February 2012, c874W
[79] op cit., *Budget 2013*, para 2.148
[80] op cit., *Budget 2014*, para 2.153

3. Heavy goods vehicles (HGVs)

In December 1980 the Armitage Report was published. Amongst its recommendations to the then Conservative Government was that VED on the heaviest lorries should be increased "at the earliest opportunity" in order to ensure that they paid the full cost for the environmental damage they caused.[81] The findings of the report complemented the thrust of the Government's August 1979 consultation paper on reform of VED for heavy goods vehicles (HGVs).[82]

The *Transport Act 1981* contained paving measures for the introduction of a new VED structure for HGVs, to shift the burden of taxation from lighter to heavier vehicles. It was announced in the March 1982 Budget that the upcoming *Finance Bill* would contain details of the proposed restructuring.[83] The intention of the reform was as follows:

> The general approach used to frame the October tax rates has been to set these around the average amount of duty paid by vehicles of similar gross weight. So the effect on any individual operator will depend on whether he has a vehicle with a low or high unladen weight compared with the average in the same gross weight tax category. Most operators will in fact find that the October rates are within 20 per cent or so of the post-Budget rate for their vehicles.[84]

The new system, taking effect in October 1982, applied to goods vehicles weighing more than 1.525 tonnes, unladen; commercial vehicles under that weight would be taxed at the same rate as cars. Goods vehicles weighing over 1.525 tonnes would be taxed according to their plated gross weight (or 'train weight' in the case of articulated lorries) and, for lorries over 12 tonnes gross weight, the number of axles. There would be three categories: vehicles weighing between 1.525 tonnes and 7.5 tonnes; those weighing between 7.5 tonnes and 12 tonnes; and those over 12 tonnes (separated into rigid and articulated vehicles).[85] Within those categories there was a further variation of duty rate by weight. Changes were later made to the VED categories for lorries and the amount of VED paid also increased.

The Labour Government announced a reform of VED for HGVs in 1998. In Budget 1998 the then Chancellor, Gordon Brown, announced a freeze on the VED rate for HGVs until a new graduated VED had been devised and also introduced a reduced VED rate of up to £500 from 1 January 1999 for HGVs that met low emission standards.[86] *Budget 1999*

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[81] HMSO, *Report of the inquiry into lorries, people and the environment*, December 1980, p153
[82] DoT, *Vehicle excise duty on heavy goods vehicles*, August 1979
[83] HM Treasury, *Financial Statement and Budget Report 1982-83*, 237, March 1982, p8
[84] DoT press notice, "New basis of lorry taxation: 1982 Finance Bill", 26 March 1982 [PN 102]
[85] ibid.
[86] HM Treasury, *Budget 1998*, HC 620, March 1998, para 5.52; the reduced rate was introduced in section 10 and Schedule 1 of the *Finance Act 1998*

continued the freeze on most HGV VED rates and doubled, to £1,000, the maximum discount for low emission lorries.[87]

In the November 2000 *Pre-Budget Report* the Chancellor announced that a reformed system of VED would be introduced in Budget 2001 to reflect the costs of the environmental and track damage done by HGVs.[88] The new system came into force on 1 December 2001, replacing the previous structure of more than 100 tax rates with a system of seven broad tax bands. A press notice from the Department for Transport, Local Government and the Regions (DTLR) stated:

> The new system aims to be simpler and more flexible than its predecessor, allowing hauliers more choice and the possibility of cost savings in the way they operate their vehicles. It will also enable 80 per cent of re-licensing to take place at Post Offices.
>
> [...] The Financial Secretary to the Treasury, Paul Boateng, added: "The new system will lead to the majority of lorry drivers paying even lower rates of VED, building on the reduced rates announced last year. For example, the main lorry used in international haulage work the 40 tonne lorry on 5 axles - will pay £1100 less VED a year as a result of these reforms. As well as making the industry more competitive the new system will be better at protecting the environment." [89]

VED rates for HGVs have been frozen since 2001.[90] This freeze continued into 2017.[91]

The June 2010 Emergency Budget confirmed the plans of the previous Government[92] to introduce new 'exceptional rates' for hauliers.[93] The detail was set out in a Budget notice:

> This measure is required to ensure that the UK VED rates remain consistent with EU regulations on minimum rates of taxation. The objective is to affect the least number of HGVs necessary to maintain compliance. The intended outcome is that HGV owners should see a highly transparent application of higher rates, limited to the categories of HGV for which existing UK rates are too low.[94]

This change was introduced in section 22 of the *Finance Act 2011*.

From 1 April 2014 VED rates for lorries within the HGV road user levy scheme were restructured and reduced. The *HGV Road User Levy Act 2013* provided for a levy on foreign and UK-registered hauliers with vehicles weighing more than 12 tonnes. UK hauliers can offset against their VED so that the vast majority are no better or worse off. Sections 82, 83, 86, 88, 90, 92 and 93 of the *Finance Act 2014* legislated for

[87] HC Deb 9 March 1999, c181
[88] HM Treasury, *Pre-budget Report 2000*, November 2000, para 6.67; this was accompanied by a consultation document, see: HMT, *Consultation on reform of vehicle excise duty for lorries*, November 2000
[89] DTLR press notice, "New VED rates for goods vehicles starts on December 1", 30 November 2001
[90] HM Treasury, *Budget 2010*, HC 451, March 2010, para 7.45
[91] op cit., *Spring Budget 2017*, para 3.24
[92] in the 2009 Pre-Budget Report
[93] op cit., *Budget 2010*, para 2.138
[94] HM Treasury, *Exceptional Rates of Vehicle Excise Duty for certain Heavy Goods Vehicles*, June 2010, p1

new VED rates for lorries and other provisions subsequent to the introduction of the levy.

In 2014-15 the levy raised £192.5 million (£46.5 million from foreign-registered HGVs and the balance from UK-registered HGVs).[95] In 2015/16 it raised £198m (£50m from foreign-registered HGVs the balance from UK registered HGVs).[96] This is far beyond estimates the Government made when the Bill was going through Parliament, of approximately £50 million per year.[97]

In the 2017 Spring Budget the Chancellor announced a call for evidence on updating the HGV Levy so that it rewards better efficiency and environmental performance.[98] The Government published the call for evidence alongside the Autumn Budget in November 2017 with the intention of reforming it so that it:

- rewards hauliers that plan their routes efficiently
- incentivises efficient use of roads
- improves environmental performance, including air quality and carbon emissions[99]

It closes on 26 January 2018.

[95] HC Deb 15 June 2015, c2WS
[96] Motor Vehicles: Taxation: Written question - HL5276, 20 February 2017
[97] *HGV Road User Levy Bill: Explanatory Notes*, October 2012, para 36
[98] Op cit., *Spring Budget 2017*, para 3.24
[99] DfT, *Reforming the heavy goods vehicle road user levy*, 22 November 2017

4. Motorcycles

In Budget 2002 the Labour Government announced plans to reform VED for motorcycles, claiming that the reforms would lead to over 600,000 motorcyclists paying lower rates of VED.[100] This followed a consultation at the end of 2001 which set out the Government's view that motorcycle use should be encouraged where it replaced car use, especially for commuting purposes (due to lower environmental impact, reducing congestion etc.). The reform would involve different bands of VED to be charged, based on engine size.[101]

The Government's motorcycling strategy, published in February 2005, gave an overview of how the VED system had changed. In effect, the previous system of VED for motorcycles had three bands based on engine capacity; this was reorganised into four bands from May 2002. The strategy stated that:

> This new structure recognised the changes in the structure of the motorcycle fleet, and the benefits of motorcycles compared with cars – especially for commuting. It also represented a reduction in VED for all motorcycles over 150cc, or approximately 630,000 (66%) out of a total fleet of 955,000 at the time it was introduced. The owners of some machines, i.e. those between 251-400cc, saw their VED reduce by £35 a year – nearly 54%.[102]

VED for motorcycles in the highest band has been increased by RPI every year since 2011.[103] Since the new banding system was introduced in 2002, the VED rates for motorcycles have increased to £18 per annum in the lowest band and to £85 in the highest band.

[100] HM Treasury, *Budget 2002*, HC 592, April 2002, para 7.38

[101] HM Treasury, *Reforming motorcycle vehicle excise duty*, November 2001, paras 4.3-4.6

[102] DfT, *The Government's Motorcycling Strategy*, February 2005, paras 8.3-8.6

[103] op cit., *Budget 2011*, para 1.150; *Budget 2012*, para 1.205; *Budget 2013*, para 2.146; *Budget 2014*, para 2.152; *Budget 2015*, para 2.164; *Budget 2016*, para 2.164; and *Spring Budget 2017*, para 3.23

5. Exemptions

Section 5 and Schedule 2 of the *Vehicle Excise and Registration Act 1994*, as amended, exempt certain vehicles or certain uses from VED. Vehicles exempted from duty include:

- Certain vehicles constructed at any time before 1 January 1973;
- Trams;
- Electrically-assisted pedal cycles;
- Vehicles not for carriage (i.e. vehicles which are not constructed or adapted for use, or used, for the carriage of a driver or passenger);
- Vehicles being used for police purposes;
- Fire engines and vehicles which are kept by a fire and rescue authority when they are being used or kept on a road for the purposes of the authority's functions;
- Ambulances and health service vehicles;
- Mine rescue vehicles (including vehicles used for the purpose of conveying or drawing emergency winding-gear at a mine);
- Lifeboat vehicles;
- Vehicles for disabled people[104] (including cycles with an attachment for propulsion by mechanical power);
- Vehicles used between different parts of land (for purposes related to agriculture, horticulture or forestry);
- Tractors and light agricultural vehicles (i.e. vehicles that have a revenue weight not exceeding 1,000 kg);
- Agricultural engines;
- Mowing machines;
- Steam powered vehicles;
- Electrically propelled vehicles;
- Snow ploughs;
- Gritters;
- Vehicles being driven to or from a testing centre for assessment/examination;
- Vehicles for export; and
- Light passenger vehicles with low CO2 emissions (i.e. that the emissions figure for the vehicle does not exceed 100 g/km).

For the purposes of clarification, the exemption for people with a disability applies to the individual, not the vehicle they use. The Minister briefly summarised relevant eligible persons in a Written Answer in 2002:

> Eligibility for exemption from paying Vehicle Excise Duty is available in respect of vehicles kept or used for the purposes of those claiming disability living allowance at the higher rate or war pensioners' mobility supplement. There are in addition a number of people who claim exemption under the former Disabled Passenger Scheme via attendance allowance. This was abolished in 1993 but those entitled to exemption from paying Vehicle Excise Duty at the time have remained eligible.[105]

[104] 'disabled people' defined in Schedule 2, para 19(2) of VERA 1994
[105] HC Deb 10 June 2002, c771W

In *Budget 2013* the Government announced that from 8 April 2013 the VED exemption for disabled drivers would be extended to individuals receiving the enhanced mobility component of Personal Independence Payment (PIP).[106]

As far as 'mobility scooters' are concerned, there are a number of different types of mobility scooter, somewhat archaically known as 'invalid carriages'. The three different classes defined in the *Use of Invalid Carriages on Highways Regulations 1988* (SI 1988/2268), as amended, are:

> Class 1 - manual wheelchair , i.e. self-propelled or attendant propelled, not electrically powered;
>
> Class 2 - powered wheelchairs and mobility scooters, intended for footpath or pavement use only with a maximum speed limit of 4 mph;
>
> Class 3 - powered wheelchairs and mobility scooters, for use on the road, with a maximum speed limit of 8 mph but with the facility to travel at 4 mph on a footpath or pavement.[107]

Normally it is an offence to ride or drive on the pavement. However, mobility scooters are permitted to do so under the 1988 Regulations as they not legally defined as a motor vehicle and therefore the driver is not required to hold a driving licence or take a test. The vehicles themselves are not subject to VED or mandatory insurance requirements.[108]

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[106] op cit., *Budget 2013*, para 2.147; PIP is the successor to Disability Living Allowance, for further information see HC Library briefing paper SN6861

[107] DfT, *Mobility scooters and powered wheelchairs on the road: some guidance for users*, 10 March 2015, p4

[108] section 20 of the *Chronically Sick and Disabled Persons Act 1970*, as amended, provides the exemption from these requirements

6. Evasion

The Department for Transport (DfT) publishes its data on VED evasion every two years. The most recent data is from 2017. This estimated that at June 2017 VED evasion would correspond to around £100 million in lost tax revenue over a full year, for the UK. This is higher than in any year since at least 2007. It equates to approximately 1.7% of the total VED due, although some of this potentially lost revenue will have been recovered through DVLA enforcement activity or through vehicle keepers paying arrears of duty to cover the untaxed period.[109]

In 2017, the rate of unlicensed vehicles in traffic in the UK was estimated to be 1.8%, compared with 0.6% in 2013. About 1.9% of all vehicles in use were unlicensed. This is equivalent to about 755,000 vehicles. DfT stated that the higher evasion rate was "could be due to major changes to the vehicle licensing system which took place in October 2014, especially the automatic refund of tax when a vehicle changes hands".[110]

Successive governments have introduced reforms aimed at reducing VED evasion – the two main ones being continuous licensing and changes to the registration documents. There have also been moves to improve detection and enforcement.

6.1 Licensing and registration

The quality of the vehicle register has been improved considerably over the past twenty years and it is now more difficult for motorists to drop out of the licensing system.

In July 1994 the then Conservative Government announced proposals for new vehicle registration and licensing procedures designed to cut VED evasion and to improve the enforcement of motoring offences. Amongst other things, the Government proposed that owners of cars and motorcycles should be required to hold a tax disc for their vehicle at all times, regardless of whether or not it was in use.[111] This was followed in March 1995 by two consultation papers: one on continuous licensing, and the other on vehicle registration.[112]

In the November 1995 Budget the then Chancellor of the Exchequer, Ken Clarke, announced that the Government had revised its proposals for a VED 'continuous licensing' system to combat tax evasion.[113] Instead of adopting one of the systems proposed in the consultation document, the Government planned to take powers in the next *Finance Bill* to introduce a new 'statutory off road notification' system (SORN).

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[109] DfT, *Vehicle excise duty evasion statistics: 2017*, 16 November 2017
[110] ibid., p2
[111] HC Deb 20 July 1994, cc252-53W, and: DoT press notice, "New measures to beat the vehicle tax dodger…", 20 July 1994
[112] DoT, *Continuous licensing: proposals for reducing VED evasion*, March 1995; and *New arrangements for vehicle registration*, March 1995
[113] HC Deb 28 November 1995, c1064

Under the amended scheme people would be required to notify the DVLA if they were going to take a vehicle off the road and not renew their tax disc. They would have to confirm each year whether the vehicle remained off road, had been scrapped, stolen or transferred.[114] The new system came into force on 31 January 1998; since that date a vehicle owner has had to take out a licence or make a SORN declaration to avoid a £1,000 fine.[115]

By 2004, the Labour Government had introduced a reformed system of continuous registration to try and deal with the problem of tracing the keepers of vehicles of abandoned cars and of those involved in motoring offences. Since 30 November 2003, the registered keeper of a vehicle has had a statutory responsibility for licensing it, and retains that responsibility until DVLA has been properly notified of the vehicle's disposal. It is possible to take enforcement action without the need to prove that the vehicle has been used or kept on a public road.[116] Failure to comply with these measures can result in an £80 fine.

New rules covering registration documents were also introduced in 2003. The keeper of a vehicle has long been required by law to notify the DVLA of any changes in ownership of their car. A similar duty also rested with the vehicle's new owner under Regulation 12 of the *Road Vehicles (Registration and Licensing) Regulations 1971* (SI 1971/450).[117] In practice, however, individuals were not often prosecuted and fines were generally token amounts, assuming there was no licensing offence involved as well. As part of the 1994 consultation on vehicle registration (see above), the then Conservative Government proposed a 'dual notification' system of recording the transfer of vehicles. Thus, both the disposer and acquirer must notify the DVLA of the transfer at the same time, although the disposer will be responsible for immediately forwarding the completed document to the DVLA. Failure to notify the DVLA of a change of keeper, change of address of the keeper or change of vehicle details continues to be a criminal offence for which the maximum penalty is £1,000.[118] The new arrangements were introduced on 24 March 1997.

6.2 Detection and enforcement

It is an offence under sections 29 and 31A of the *Vehicle Excise and Registration Act 1994*, as amended, to drive or keep a vehicle that is not taxed (unless it is registered as off-road or is an exempt vehicle).

The responsibility for pursuing the owners of unlicensed vehicles rests with the DVLA. The police, traffic wardens or local authority parking attendants may inform the DVLA, but the Agency is responsible for any prosecution.

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114 ibid.

115 sections 14 to 23 and Schedule 2 of the *Finance Act 1996*; and SI 1997/3025, now the *Road Vehicles (Registration and Licensing) Regulations 2002* (SI 2002/2742)

116 *Road Vehicles (Registration and Licensing) (Amendment) (No 3) Regulations 2003* (SI 2003/2981)

117 repealed in 2002

118 *Road vehicles (Registration and Licensing) (Amendment) Regulations 1997* (SI 1997/401)

The DVLA has been able to clamp and remove vehicles for not paying VED or making a SORN declaration since November 1997, but only on the public road. The *Vehicle Excise Duty (Immobilisation, removal and disposal of vehicles) Regulations 1997* (SI 1997/2439), as amended, allow the DVLA to clamp and remove untaxed vehicles. If a motorist fails to act within 24 hours of being clamped, the vehicle is removed to a pound, where it attracts a removal charge in addition to a daily storage charge. Vehicles left unclaimed after five weeks are crushed or sold at auction.

The 1997 Regulations were amended by the *Vehicle Excise Duty (Immobilisation, Removal and Disposal of Vehicles) (Amendment) Regulations 2008* (SI 2008/2266) so that, from October 2008, the DVLA has had the power to clamp vehicles that are **not** on the public road, if they are in breach of the continuous registration requirements. To be clear, the areas covered by this legislation are: "off-road areas such as unadopted roads, commons, public car parks or roads maintained by Housing Associations to place themselves beyond the reach of the enforcement authorities". It does not include: "areas associated with a dwelling, such as garages or driveways so there will be no invasion of a homeowner's privacy".[119]

Since April 2002 the DVLA has the power to devolve to local authorities its powers to clamp unlicensed vehicles; police forces may also take action using automatic number plate recognition (ANPR) technology.

In July 2010 the then Transport Minister, Mike Penning, set out the various ways in which VED evasion is detected and penalties enforced:

> A comprehensive package of measures is in place making vehicle excise duty convenient to pay but difficult to evade. Registered keepers are sent renewal reminders to alert them that the vehicle excise duty is due and offering a variety of ways to license their vehicle. Online and telephone services are used by a large number of customers together with the traditional paper service at the Post Office.
>
> Those who fail to license their vehicles are subject to proportionate enforcement measures ranging from automated penalties from the vehicle record, through to direct enforcement action such as the wheel clamping, impounding and, ultimately, disposal of the unlicensed vehicle.[120]

He gave further information on the budget allocated for this activity in March 2011: "the planned vehicle excise duty collection and enforcement revenue budget will increase by £1.1 million in 2011-12 and then reduce by £5 million in 2012-13, by £4.2 million in 2013-14 and by £8.2 million in 2014-15".[121] In 2015 the DVLA clamped upwards of 90,000 vehicles.[122]

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[119] *Explanatory memorandum* to SI 2008/2266
[120] HC Deb 20 July 2010, c187W; recently reiterated by the Transport Minister Andrew Jones: Motor Vehicles: Excise Duties: Written question – 64734, 24 February 2017
[121] HC Deb 28 March 2011, c97W
[122] *Immobilisation of Vehicles: Written question – 17350*, 1 December 2015

7. Appendix: VED rates, 1910-2001

Date	Tax rate for motor cars
1910	The horsepower formula was used as a convenient basic for the new system. The rates charged increased with horsepower but not proportionately. They were as follows: • over 6½ but not over 12hp - £3 • over 12 but not over 16hp - £4 4s • over 16 but not over 26hp - £6 6s • over 26 but not over 33hp - £8 8s • over 33 but not over 40hp - £10 10s • over 40 but not over 60hp - £21 • over 60hp - £42
1 January 1921	Vehicles not exceeding 6 horsepower - £6 Each extra unit of horsepower - £1
1934	Horsepower tax reduced from £1 to 15s
1940	Tax raised to £1
1 January 1948	A new flat rate tax was imposed: • cars registered after 1 January 1947 - £10 • cars registered before 1 January 1947 - £7 10s up to 6hp, plus £1 5s for each extra unit of horsepower *(This distinction between cars registered before and after 1 January 1947 continued to 1968 but has been ignored in the following list)*
1 January 1953	Tax raised to £12 10s
17 April 1961	Tax raised to £15
6 April 1965	Tax raised to £17 10s
20 March 1968	Tax raised to £25
16 April 1975	Tax raised to £40
6 March 1977	Tax raised to £50
27 March 1980	Tax raised to £60
11 March 1981	Tax raised to £70
1 October 1982	Tax raised to £80
16 March 1983	Tax raised to £85
14 March 1984	Tax raised to £90
20 March 1985	Tax raised to £100
11 March 1992	Tax raised to £110
17 March 1993	Tax raised to £125
1 December 1993	Tax raised to £130
November 1994	Tax raised to £135
November 1995	Tax raised to £140
November 1996	Tax raised to £145

November 1997	Tax raised to £150
March 1999	Tax raised to £155 (lower rate £100)
March 2001	Tax raised to £160 (lower rate £105) *(New scheme introduced for cars bought after March 2001 based on CO2 emissions; cars registered before that date pay as on the old system)*

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