

TAX BRIEFING NOTE

VEHICLE EXCISE DUTY

DECEMBER 2017

What is it?

Vehicle excise duty (VED) is a levy paid to drive or park vehicles on public roads. A locomotive duty was introduced in 1889. VED was introduced in 1921 and the revenues were initially hypothecated to road spending, prompting the duty to be known as 'road tax'. This link was broken in 1937, however.

Three groups of charges apply, based on the date of registration of the vehicle: on or after 1 April 2017; before 1 March 2001; and between those dates.

VED on cars registered since April 2017 has an initial one-off rate in the first year based on bands of CO₂/km emissions, with a discount for alternative fuel cars. Rates in subsequent years are based on whether the list price is above a threshold (£40,000 in 2017-18) and whether the power is petrol/diesel, electric or alternative.

Cars registered before April 2017 pay one of 13 bands based on CO₂/km emissions (with lower rates for alternative fuel cars) unless they were registered before March 2001, in which case only two rates apply, based on whether the engine size exceeds 1549cc.

Four bands apply to motorcycles and two to tricycles, based on engine size. Light goods vehicles pay a single rate except some historic vehicles which comply with Euro 4 or Euro 5 emissions standards. Heavy goods vehicles pay VED and HGV road user levy based on the weight, number of axles and suspension type. The first-year rate on diesel cars registered from April 2018 will be calculated as if the car were in the VED band above, except those certified as next-generation clean diesels.

What's the problem with it?

Taxing vehicle ownership is arbitrary and the current system is needlessly complex. The revenue raised would be less economically damaging if taken from overall consumption through VAT, or from income through income tax. Concerns about emissions, meanwhile, are already addressed through fuel duty. Congestion has almost no link with vehicle ownership because it is highly specific to certain times and locations. Congestion charges and other road-pricing mechanisms are much better designed to address congestion.

VED discourages vehicle ownership, which affects low income households more, with worrying implications for employment, particularly in areas which cannot sustain frequent and dense public transport networks.¹

What should be done?

1. Freeze VED immediately (but link the HGV road user levy to road use costs).
2. Abolish VED entirely as soon as possible (but retain HGV road user levy).

¹Wellings, R., *Time To Excise Fuel Duty?*, IEA, 2012 https://iea.org.uk/wp-content/uploads/2016/07/Time%20to%20excise%20fuel%20duty_0.pdf