

Who is likely to be affected

Purchasers of cars first registered from 1 April 2017 onwards.

General description of the measure

This measure reforms Vehicle Excise Duty (VED) for cars first registered from 1 April 2017 onwards. First Year Rates (FYRs) of VED will vary according to the carbon dioxide (CO₂) emissions of the vehicle. A flat Standard Rate (SR) of £140 will apply in all subsequent years, except for zero-emission cars for which the SR will be £0. Cars with a list price above £40,000 will attract a supplement of £310 on their SR for the first 5 years in which a SR is paid. All cars first registered before 1 April 2017 will remain in the current VED system, which will not change. The new rates and bands for the post-2017 VED system are set out in the table below:

New VED system - for cars registered from 2017		
Emissions (g/CO ₂ /km)	First year rate	Standard rate*
0	£0	£0
1-50	£10	£140
51-75	£25	£140
76-90	£100	£140
91-100	£120	£140
101-110	£140	£140
111-130	£160	£140
131-150	£200	£140
151-170	£500	£140
171-190	£800	£140
191-225	£1200	£140
226-255	£1700	£140
over 255	£2000	£140
*cars over £40,000 pay £310 supplement for 5 years		

Policy objective

The current VED structure based on CO₂ bands was introduced in 2001 when average UK new car emissions were 178 gCO₂/km. The Band A threshold of 100 gCO₂/km below which cars pay no VED was introduced in 2003 when average new car emissions were 173 gCO₂/km. Since then, to meet EU emissions targets average new car emissions have fallen to 125 gCO₂/km. This means that an increasingly large number of ordinary cars now fall into the zero- or lower-rated VED bands, creating a sustainability challenge and weakening the environmental signal in VED. This is set to continue as manufacturers meet further EU targets of 95 gCO₂/km set for 2020. Additionally, the system results in significant unfairness as owners of newer cars pay little or no VED while owners of older cars generally pay higher rates.

The reformed VED system retains and strengthens the CO₂-based FYRs to incentivise uptake of the very cleanest cars whilst moving to a flat SR in order to make the tax fairer, simpler and sustainable. To ensure those who can afford the most expensive cars make a fair contribution, a supplement of £310 will be applied to the SR of cars with a list price (not including VED) over £40,000, for the first 5 years in which a SR is paid.

Background to the measure

This measure was announced at Summer Budget 2015.

Detailed proposal

Operative date

The measure will have effect from 1 April 2017 for cars first registered on or after that date.

Current law

Section 1 of the Vehicle and Registration Act (VERA) 1994 provides for the charging of VED. Section 2 of VERA provides that VED in respect of a vehicle of any description is chargeable by reference to the applicable rate specified in schedule 1 of VERA.

Part 1A of Schedule 1 to VERA sets out the VED rates for cars registered on or after 1 March 2001, as amended by successive Finance Acts.

Proposed revisions

Schedule 1 will be amended to include a provision that differentiates rates applying to cars first registered before 1 April 2017 from those registered on or after that date.

Summary of impacts

	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
Exchequer impact (£m)	-	+250	+195	+670	+940	+1425
	These figures are set out in Table 2.1 of Summer Budget 2015 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costing's document published alongside Summer Budget 2015.					
Economic	This measure is expected to have a small positive effect on inflation but is not expected to					

impact	<p>have any significant macroeconomic impacts. The costing includes a behavioural response to account for an increase in vehicle purchases in the period between the measure being announced and it being implemented.</p>
Impact on individuals, households and families	<p>This measure will impact on motorists purchasing a car first registered on or after 1 April 2017. In the current system the average annual <u>VED</u> across all UK motorists is £166. In the new system most motorists will be paying an annual <u>VED</u> payment of £140. Motorists purchasing a car above £40,000 will pay more than other motorists. The likelihood of a households purchasing one of these cars increases as the household's income increases.</p> <p>No one will pay more for the car they already own.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>
Equalities impacts	<p>This measure will affect everyone purchasing a car first registered from 1 April 2017 onwards.</p> <p>Car ownership can help people get around if they suffer from a mobility impairment. This is addressed through the 100% rates exemption and 50% rates discount that will continue to be available to people in receipt of the mobility component of Disability Living Allowance or Personal Independence Payments.</p>
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses and civil society organisations. This measure will not alter the administrative process to licence a car and pay tax for use on public roads. It is expected to result in negligible one-off costs as businesses and civil society organisations familiarise themselves with the band and rates changes and update administrative systems.</p> <p>This measure supports the development and manufacture of zero and Ultra Low Emission Vehicles (<u>ULEVs</u>) in the United Kingdom by providing preferential tax treatment of these cars over conventionally fuelled cars. The very cleanest zero-emission vehicles are particularly incentivised as they continue to be pay a £0 of <u>VED</u>.</p>
Operational impact (£m) (HM Revenue and Customs or other)	<p>There will be some operational impact on the Driver and Vehicle Licensing Agency (<u>DVLA</u>) as they set up the new <u>VED</u> system alongside the existing system.</p> <p>There will be no additional administrative costs for affected car drivers.</p>
Other impacts	<p>Carbon emissions: by strengthening the incentive to purchase zero-emission cars and <u>ULEVs</u> over conventionally fuelled cars this measure is expected to contribute to the UKs carbon emissions targets.</p> <p>Small and micro business assessment - this measure is expected to have negligible one-off costs on small and micro businesses as they familiarise themselves with the band and rates changes and update administrative systems. It impacts on all businesses in the same way irrespective of their size. Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be monitored through the [DVLA](#) vehicle licensing data.

Further advice

If you have any questions about this change, please contact email:
ETTAnswers@HMTreasury.gsi.gov.uk.