



Policy note, July 2015

Summer Budget 2015 changes to Vehicle Excise Duty.

Headline:

The Chancellor's changes mean that from 2017 a new greener car will cost nearly a £1,000 more. The changes hit greener cars far harder than more polluting cars.

Detail:

The Budget announced changes to the Vehicle Excise Duty (VED) new cars will pay from 2017ⁱ: both in their first year, and in subsequent years. VED for cars registered before 2017 remains the same.

There are 4 main changes:

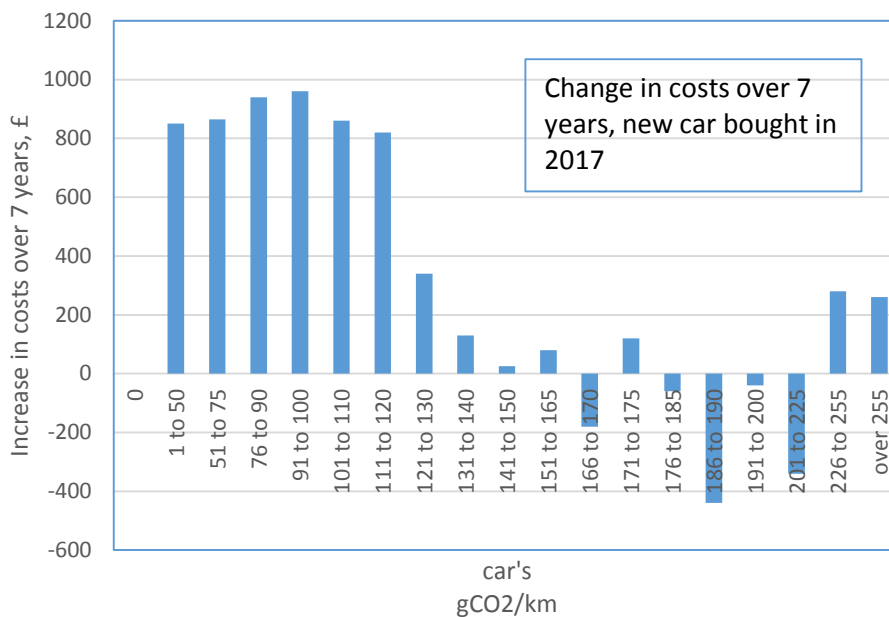
- Most greener cars (below <120 gCO₂/km) now pay VED in the first year, up to £160, where previously they paid nothing. Only zero-emission cars still pay zero VED.
- The first year VED rises more steeply – up to a top rate of £2000 for the most polluting car.
- VED for subsequent years was banded before – the more polluting cars paying more, up to £505. Now there is a flat-rate of £140 for all cars, except zero-emission vehicles, which pay zero:
 - Over time this strongly benefits more polluting cars, which pay hundreds of pounds a year less;
 - Over time this penalises greener cars - which pay around a hundred pounds a year more.
- Cars costing over £40,000 pay an additional £310 a year for the first five years; currently all cars over 225g/km (the top 2 bands) cost more than £40,000.

In total, the net effect of all these changes is that motorists buying a greener car will pay around £800-£1000 more than with the current VED systemⁱⁱ. See graph and table on page 2. Overall, the changes will raise £3,480 million for the Treasury in the first four years from 2017.

Friends of the Earth view is that these changes are bad for people, the environment and industry. Manufacturers have developed over 2,000 models of greener carⁱⁱⁱ – the Chancellor has just made almost all of them more expensive to buy.

Alongside putting an energy tax on renewable electricity, supporting more oil and gas drilling and pledging more road building, this is a bad Budget for the environment. The Chancellor is jamming the brakes on the Government's ambitions to tackle climate change, when he should be putting his foot on the accelerator.

Govt changes to motorists' tax disc costs - green cars lose



gCO ₂ /km	First year (£)		Subsequent years (£)		Cost over 7 years (£)		Difference (£)
	Old rate	New rate	Old rate	New rate	Old rates	New rates	
0	0	0	0	0	0	0	0
1 to 50	0	10	0	140	0	850	850
51 to 75	0	25	0	140	0	865	865
76 to 90	0	100	0	140	0	940	940
91 to 100	0	120	0	140	0	960	960
101 to 110	0	140	20	140	120	980	860
111 to 120	0	160	30	140	180	1000	820
121 to 130	0	160	110	140	660	1000	340
131 to 140	130	200	130	140	910	1040	130
141 to 150	145	200	145	140	1015	1040	25
151 to 160	180	500	180	140	1260	1340	80
161 to 170	290	500	205	140	1520	1340	-180
171 to 175	290	800	205	140	1520	1640	120
176 to 185	350	800	225	140	1700	1640	-60
186 to 190	490	800	265	140	2080	1640	-440
191 to 200	490	1200	265	140	2080	2040	-40
201 to 225	640	1200	290	140	2380	2040	-340
226 to 255	870	1700	490	140	3810	4090 ^{iv}	280 ^{iv}
Over 255	1100	2000	505	140	4130	4390 ^{iv}	260 ^{iv}

ⁱ Summer Budget 2015 policy costings, pages 24-25. <https://www.gov.uk/government/publications/summer-budget-2015>. Current VED rates are set out at eg <http://www.nextgreencar.com/car-tax/bands.php>

ⁱⁱ Based on new car ownership of 7 years.

ⁱⁱⁱ Below 120gCO₂/km. <http://www.carpages.co.uk/CO2>

^{iv} This figure includes the new annual £310 charge for 5 years for cars costing over £40,000.