



Vehicle Excise Duty (VED)

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Motoring taxation is made up of two elements, vehicle excise duty (VED), which can be considered a tax on ownership, and fuel duty, which is 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 *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.

Budget 2008 proposed an expansion of the number of VED bands to 13, incorporating significant rises for the most polluting vehicles, from 2009. However, following the onset of the recession and concerns expressed from many quarters, the Chancellor announced in the November 2008 Pre Budget Report that although the number of bands would be expanded to 13 in line with the proposals in the Budget, the accompanying cost increases would be pegged at £5 for 2009-10 and £30 for 2010-11. These changes came into force from 1 May 2009.

Further research notes and papers on roads, vehicles and driving can be found on the relevant page of the [Parliament website](#).

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1 VED rates from 1 May 2009

The following is taken from the [Direct.Gov website](#):

Cars registered before 1 March 2001 (based on engine size)

Private/light goods (TC11)

<i>Engine size (cc)</i>	<i>12 months rate</i>	<i>6 months rate</i>
Not over 1549	£ 125.00	£ 68.75
Over 1549	£ 190.00	£ 104.50

Cars registered on or after 1 March 2001 (based on fuel type and CO2 emissions)

The rates shown only apply to cars that have been type approved in category M1 and registered on the basis of CO2 emissions measured in grams per kilometre (g/km) driven. These details are shown on the registration certificate (V5C).

From 1 May 2009, Vehicle tax rates for cars registered on or after 1 March 2001 are split into 13 bands depending on CO2 emissions. The amount you'll pay depends on which band your car is in. The lower a car's emissions, the lower the vehicle tax payable on it.

Petrol car (TC48) and diesel car (TC49)

<i>Band</i>	<i>CO2 emission (g/km)</i>	<i>12 months rate</i>	<i>6 months rate</i>
A	Up to 100	Not applicable	Not applicable
B	101-110	£35.00	Not applicable
C	111-120	£35.00	Not applicable
D	121-130	£120.00	£66.00
E	131-140	£120.00	£66.00
F	141-150	£125.00	£68.75
G	151-165	£150.00	£82.50
H	166-175	£175.00	£96.25
I	176-185	£175.00	£96.25
J	186-200	£215.00	£118.25
K*	201-225	£215.00	£118.25
L	226-255	£405.00	£222.75
M	Over 255	£405.00	£222.75

* Band K includes cars that have a CO2 figure over 225g/km but were registered before 23 March 2006

Alternative fuel car (TC59)

Band	CO2 emission (g/km)	12 months rate	6 months rate
A	Up to 100	Not applicable	Not applicable
B	101-110	£15.00	Not applicable
C	111-120	£15.00	Not applicable
D	121-130	£100.00	£55.00
E	131-140	£100.00	£55.00
F	141-150	£105.00	£57.75
G	151-165	£130.00	£71.50
H	166-175	£155	£85.25
I	176-185	£155	£85.25
J	186-200	£200	£110.00
K*	201-225	£200	£110.00
L	226-255	£390	£214.50
M	Over 255	£390	£214.50

* Band K includes cars that have a CO2 figure over 225g/km but were registered before 23 March 2006

Light goods vehicles (TC39)

Registered on or after 1 March 2001 (not over 3,500kg revenue weight).

Vehicle	12 months rate	6 months rate
Light goods vehicle	£185.00	£101.75

Euro 4 light goods vehicles (TC36)

Registered between 1 March 2003 and 31 December 2006 only (not over 3,500kg revenue weight).

Vehicle	12 months rate	6 months rate
Euro 4 light goods vehicles	£125.00	£68.75

Euro 5 light goods vehicles (TC36)

Registered between 1 January 2009 and 31 December 2010 only (not over 3,500kg revenue weight).

Vehicle	12 months rate	6 months rate
Euro 5 light goods vehicles	£125.00	£68.75

Motorcycle (with or without a sidecar) (TC17)

Engine size (cc)	12 months rate	6 months rate
Not over 150	£15.00	Not applicable
151-400	£33.00	Not applicable
401-600	£48.00	Not applicable
Over 600	£66.00	£36.30

General haulage (TC55)

12 months rate	6 months rate
£350.00	£192.50

Reduced pollution general haulage (TC56)

12 months rate	6 months rate
£165.00	£90.75

2 Background

Motoring taxation is made up of two elements, vehicle excise duty (VED), which can be considered a tax on ownership, and fuel duty, which is a tax on use. Over the years the balance of taxation has shifted towards fuel duty and the policy of current Labour and previous Conservative 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. 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 for many years and it is now a general revenue raising tax.

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 maintainable at public expense), as set out in the

Vehicle Excise and Registration Act 1994. 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 commits an offence under section 29 of the 1994 Act. Changes to the rates and coverage of the duty are made in the *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 certain behaviour, such as the use of environmentally friendly vehicles. The two most frequently suggested changes have been its abolition and replacement by an increased fuel tax, and the introduction of a graduated tax. As explained in the following section, the Labour Government introduced a graduated rate by linking VED with carbon dioxide emissions in 2001.

VED was first introduced for four-wheeled motor vehicles on 1 January 1889 by the *Customs and Inland Revenue Act 1888*.¹ 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 cars² 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. In 1906 a Royal Commission proposed increasing taxation and introducing a central road fund. This 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 was to be a new graduated tax on cars based on their horsepower and a tax on imported oil and the net proceeds were to be spent on the roads. 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*. The Road Board was replaced by the Road Fund in the *Roads Act 1920*.³

Historically the road fund tax was used for the building and upkeep of roads. The Road Fund received the money derived from the taxation of motor vehicles that was collected by county councils and it paid it back to local authorities to finance expenditure incurred on roads. 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*, although the Road Fund itself was not finally abolished until 1955. Since 1937 the revenues from motor vehicle taxes have been 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. Motor vehicle taxes are not now assigned or hypothecated in any way, so that expenditure on roads is not related to their yield.

The abolition of VED was proposed in a November 1978 White Paper by the then Labour Government. The anticipated increase to petrol prices in order to make the change revenue-neutral was then about 20 pence per gallon.⁴ In the first Budget of the incoming Conservative Government, in June 1979, the then Chancellor of the Exchequer, Geoffrey Howe, stated

¹ 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"

² "light locomotives" as defined in the 1896 Act

³ for more information on the creation and history of the Road Fund, see: William Plowden, *The Motor Car and Politics 1896-1970*, 1971 (available from the House of Commons Library)

⁴ DoT, *The future of vehicle excise duty*, November 1978, p3

that he was reviewing the future of VED⁵ and announced the following year that he did not intend to take forward the Labour Government's proposals to abolish it.⁶ The main argument put forward for abolishing VED and raising the money through fuel duty has tended to be that it would encourage 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.⁷ The counter argument was that such a move would increase the costs for firms with high mileage costs and for those who live in rural areas, and that there could be inflationary consequences.

Rather than abolish VED, environmental bodies advocated the 'greening' of VED: using it to influence the purchase of cars that are 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.⁸ Specifically, the Commission recommended that VED on heavy goods vehicles be graduated according to the emission limits their engines were designed to meet, with reduced rates of duty available for vehicles meeting planned emission limits.⁹ The IFS, in contrast, argued that it was difficult to approximate CO₂ emissions per kilometre with reasonable accuracy, 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 much to use the car.¹⁰

3 Reforms by the Labour Government

3.1 1997-2006

The Labour Government's policy on VED was set out in its first transport White Paper, *A new deal for transport: better for everyone*, published in July 1998:

We have introduced legislation in the 1998 Finance Bill which will provide an incentive for cleaner vehicles through the vehicle excise duty arrangements (VED) for lorries and buses. From January 1999, lorries and buses producing very low particulate emissions will receive an incentive of up to £500 off VED rates to encourage owners to achieve tough emissions standards: for example, by fitting particulate traps to vehicles, fitting higher standard engines or switching to road gas fuels.

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,

⁵ [HC Deb 12 June 1979, c254](#)

⁶ [HC Deb 26 March 1980, cc1470-71](#)

⁷ Mark Pearson & Stephen Smith, *Taxation & environmental policy: some initial evidence* (IFS Commentary No. 19), 1990

⁸ RCEP, *Transport and the environment* (eighteenth report), Cm 2674, October 1994; this and the [follow-up \(twentieth\) report](#), published in 1997, are summarised in a [2002 review by the Institute for European Environmental Policy](#)

⁹ *ibid.*, [para 8.68](#); the 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

¹⁰ IFS, *Options for 1997: the Green Budget*, 1996, p50

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.

The Chancellor has already announced that he will review the system for setting VED rates for lorries to ensure that the environmental damage they cause is reflected in their VED rates. This review will take into account the wider environmental impacts of lorries as well as their physical effects on the road infrastructure.¹¹

This was followed by a consultation paper in November 1998. The Government considered that VED should be changed to encourage more environmentally friendly use of vehicles and action should be taken to combat evasion. More particularly, VED should vary according to a car's carbon dioxide emission rate, but since the information to do this was only available for new cars, it was proposed to use engine size and possibly age for existing cars. Fuel type (e.g. petrol or diesel) was another factor that would be taken into account. Views were sought on whether VED rates should be set according to bands or whether they could be structured on a continuous sliding scale. Advantages of a banded, over a continuous rate, structure were that it was simpler to administer; that it allowed slightly more flexibility in setting rate relativities; and that the steps at band boundaries could provide more of an incentive for manufacturers of vehicles falling close to a boundary to reduce emissions. Disadvantages of banding were that there was less incentive for manufacturers of cars not close to a band boundary to improve their environmental performance; and that two types of car falling on either side of a band boundary might be close in environmental performance but attract very different VED rates.¹²

[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, the most accurate indicator of fuel efficiency. Details were announced in [Budget 2000](#) and introduced on 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. A fifth band was announced in [Budget 2002](#), a sixth in [Budget 2003](#), and a seventh in [Budget 2006](#). Within each band, there is a discount rate for cars using cleaner fuels and technology and a small supplement for diesel cars. The initial announcement in [Budget 2000](#) stated:

VED rates for existing cars

In [Budget 98](#), the Government announced its intention to reform VED to encourage cleaner cars. A consultation document issued with the 1998 Pre-Budget Report set out options for graduating VED rates by the environmental performance of different cars, looking at factors such as their engine size, carbon dioxide emissions and fuel type.

[Budget 99](#) cut the VED rate for smaller cars, introducing a reduced annual VED rate of £100 for cars with engines up to 1,100 cc. This delivered a £55 reduction in the VED bill for drivers of 1.8 million smaller cars at a cost of £85 million a year

From March 2001, this reduced rate will be extended to apply to all existing cars with engines up to 1,200cc - making a further 2.2 million smaller cars eligible for the lower rate. This will provide an incentive for motorists to make their next second-hand car purchase a smaller, more environmentally-friendly model.

¹¹ DETR, *A new deal for transport: better for everyone*, Cm 3950, July 1998, paras 4.124-4.126

¹² HM Treasury, *Consultation on reform of Vehicle Excise Duty to ensure a cleaner environment*, 3 November 1998, pp8-13; responses to the consultation available from HC Library [ref: DEP 99/978]

Graduated VED for new cars

Budget 99 announced that, for new cars, a system of graduated VED would be introduced based primarily on their carbon dioxide emissions. Budget 2000 announces details of this new system, which will be introduced from 1 March 2001.

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:

- new cars as opposed to older cars;
- cars with lower carbon dioxide emissions and better fuel efficiency; and
- cars using fuels and technology which are better for local air quality.

The reforms to car VED announced in Budget 99 and Budget 2000 were to have been introduced on a revenue-neutral basis. However, the Government has decided to freeze VED rates for cars until the extension of the reduced rate in March 2001.¹³

3.2 2008-

In Budget 2008 the Chancellor, Alistair Darling, announced further changes to VED. The most significant change was 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 Chancellor also announced the introduction of a new 'first year' rate in 2010, which could be as much as £950 for the most polluting cars. The Red Book stated:

With effect from 1 April 2009, and as set out in Table 8a, VED for cars, registered on or after 1 March 2001, will be reformed to include six new bands. From 1 April 2010, a new first year VED rate will be introduced. With effect from 1 April 2009, and as set out in Table 8b, the lower rate of VED for cars and light good vehicles registered before 2001 is frozen and the higher rate will rise by £15. With effect from 1 April 2009, the VED rate for light goods vehicles registered after 2001 will rise by £15. With effect from 1 April 2010, the VED rate for cars and light goods vehicles registered before 2001 will be increased in line with indexation.¹⁴

¹³ HM Treasury, *Budget 2000*, HC 346, March 2000, paras 6.58-6.63

¹⁴ HMT, *Budget 2008*, HC 388, March 2008, paras 6.27-6.29 and A97-A101

Table A.8a: VED bands and rates for cars registered after 1 March 2001 (graduated VED)

VED band	CO ₂ emissions (g/km)	2008-09 ¹	CO ₂ emissions (g/km)	2009-10	2010-11	
		standard rate		standard rate	first year rate	standard rate ⁴⁴
A	Up to 100	0	Up to 100	0	0	0
B	101 – 120	35	101–110	20	0	20
C	121 – 150	120	111–120	30	0	35
D	151 – 165	145	121–130	90	0	95
E	166 – 185	170	131–140	110	115	115
F	Over 186 ²	210	141–150	120	125	125
G	Over 226 ³	400	151–160	150	155	155
H			161–170	175	250	180
I			171–180	205	300	210
J			181–200	260	425	270
K			201–225	300	550	310
L			226–255	415	750	430
M			Over 255	440	950	455

¹ 2008-09 rates take effect from 13 March 2008.

² Cars registered before 23 March 2006.

³ Cars registered on or after 23 March 2006.

⁴⁴ Alternative fuel car discount: 2009-10 £20 bands A-I, £15 bands J-M; 2010-11 £10 all cars.

Table A.8b: VED bands and rates for private and light goods vehicles registered before 1 March 2001 (pre-graduated VED)

Engine size	2008-09 ¹	2009-10
1549cc and below	120	120
Above 1549cc	185	200

¹ Rates take effect from 22 March 2007.

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.¹⁵

To clarify the status of the current Band F and Band G: Band F was introduced by Budget 2003 and Band G by Budget 2006. Band G only applies, therefore, to vehicles first registered after 23 March 2006 that emit more than 226g CO₂ per km. Vehicles emitting 226g CO₂ per km registered before 23 March 2006 would come under Band F.

On 9 July 2008, in response to a series of written questions by the Conservative MP Justine Greening, the Treasury released details of the numbers of people that would be affected by the proposed changes in the various VED categories. Overall, the Government estimated that in 209-10, a third of cars would be “better off in real terms” and 55 per cent of cars would be “no worse off”.¹⁶ Further WPQs solicited information as to the most popular makes and models of car and how they would be affected by the planned changes. The Treasury

¹⁵ [HC Deb 14 May 2008, c1623W](#)

¹⁶ [HC Deb 9 July 2008, cc1648-1651W](#)

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”.¹⁷

Following the controversy surrounding these proposals (see section 10.3 below), 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 for 2010-11 the maximum amount of increase would be £30.¹⁸ 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.¹⁹

Table A8a: VED bands and rates for cars registered on or after 1 March 2001 (graduated VED)

VED band	CO ₂ emissions (g/km)	2009-10		2010-11	
		standard rate (£) ¹	standard rate (£) ¹	standard rate (£) ¹	first year rate (£) ¹
A	Up to 100	0	0	0	0
B	101 - 110	35	20	0	0
C	111 - 120	35	30	0	0
D	121 - 130	120	90	0	0
E	131 - 140	120	110	110	110
F	141 - 150	125	125	125	125
G	151 - 165	150	155	155	155
H	166 - 175	175	180	180	250
I	176 - 185	175	200	200	300
J	186 - 200	215	235	235	425
K ²	201-225	215	245	245	550
L	226-255	405	425	425	750
M	Over 255	405	435	435	950

¹ Alternative fuel discount: 2009-10, A-I £20, J-M £15; 2010-11 onwards £10 all cars

² Includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006

¹⁷ *ibid.*, [cc1651-1654W](#)

¹⁸ HM Treasury, *Pre Budget Report 2008*, CM 7484, 24 November 2008, paras 7.32-7.37

¹⁹ HM Treasury, *Budget 2009*, HC 407, 2 April 2009, [para 7.52](#) and [Tables A8a and A8b](#)

Table A8b: VED bands and rates for private and light goods vehicles registered before 1 March 2001 (pre-graduated VED)

Engine size	2009-10 (£)	2010-11 (£)
1549cc and below	125	125
Above 1549cc	190	205

Constituents can search for their own vehicles by make and model to see how they are personally affected on either the [Parkers](#) or the [TaxPayers' Alliance](#) websites.

4 Heavy goods vehicles

In December 1980 the Armitage Report was published. Amongst its recommendations to the 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.²⁰ The findings of the report complemented the thrust of the Government’s August 1979 consultation paper on reform of VED for heavy vehicles.²¹ The *Transport Act 1981* contained paving measures for the introduction of a new VED structure for lorries, 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.²² 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.²³

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 over 1.525 tonnes would be taxed according to their plated gross weights (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).²⁴ 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. There were various attempts at simplification of vehicles categories following the *Finance Act 1993*, and the *Vehicle Excise and Registration Act 1994* (VERA) consolidated the disparate parts of legislation.

Labour’s first transport White Paper, published in July 1998, stated:

The Chancellor has already announced that he will review the system for setting VED rates for lorries to ensure that the environmental damage they cause is reflected in

²⁰ *Report of the inquiry into lorries, people and the environment*, HMSO, December 1980, p153

²¹ Department of Transport, *Vehicle excise duty on heavy goods vehicles*, August 1979

²² HM Treasury, *Financial Statement and Budget Report 1982-83*, 237, March 1982, p8

²³ DoT press notice, “New basis of lorry taxation: 1982 Finance Bill” (PN 102), 26 March 1982

²⁴ *ibid.*

their VED rates. This review will take into account the wider environmental impacts of lorries as well as their physical effects on the road infrastructure.²⁵

In Budget 1998 the then Chancellor, Gordon Brown, announced a freeze on the VED rate for lorries until the new graduated VED had been devised and also a reduced VED rate of up to £500 from 1 January 1999 for lorries and meeting low emission standards.²⁶ Budget 1999 continued the freeze on most lorry VED rates and doubled, to £1,000, the maximum discount for low emission lorries.²⁷ 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 lorries:

The Government announced in Budget 98 that it would reform VED for lorries. It commissioned a report from independent experts on the environmental and track damage caused by lorries, that was published in April 2000. It can now announce that it will introduce a reformed system of lorry VED in Budget 2001, subject to consultation on the details of the reform, to reflect better the environmental and track costs of different lorries. The reform is intended to reduce by approximately £300 million a year (equivalent to over 50 per cent) the cost of VED on lorries for British industry. The reduction in VED itself is in accordance with the Government's principle of shifting taxes away from vehicle ownership. The new scheme will continue to reward lorries meeting lower emissions and the Government will consider using new Euro emissions standards in the future. It will also be a simpler, more flexible system.²⁸

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 of Vehicle Excise Duty for goods vehicles ... replaces the existing structure of more than 100 tax rates with a system of seven broad tax bands, reflecting the environmental impact of vehicles as well as the road wear they cause. The new VED rates are among the lowest in Europe for some of the cleanest and least damaging lorries.

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.

Transport Minister David Jamieson said: "I warmly welcome the introduction of this new structure of tax rates. As well as consolidating the reductions in VED announced last Autumn, it provides a simple and more transparent tax structure that better recognises the operational needs of hauliers."

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

²⁵ op cit., *A new deal for transport: better for everyone*, para 4.126

²⁶ 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*

²⁷ [HC Deb 9 March 1999, c181](#)

²⁸ 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

of these reforms. As well as making the industry more competitive the new system will be better at protecting the environment." ²⁹

VED rates for lorries were frozen for financial years 2008-09 and 2009-10.

Further information on taxes and charges affecting the road haulage industry can be found in [HC Library Research Paper RP 08/68](#).

5 Motorcycles

In Budget 2002 the Government announced its plans to reform VED for motorcycles, claiming that the reforms would lead to over 600,000 motorcyclists paying lower rates of VED.³⁰ This followed a consultation at the end of 2001 which set out the Government's view that motorcycles should be encouraged where they replace car use, especially for commuting purposes. This is because of the lower environmental impact and the reduced congestion of travelling, particularly commuting, by motorcycle instead of by car. The paper proposed continuing to differentiate on the basis of the engine size of the vehicle but to alter the bands.³¹

The Government's motorcycling strategy, published in February 2005, gave an overview of how the VED system had changed:

More than 11,000 responses were received to the motorcycle consultation exercise, and the Chancellor announced a new structure of VED rates for motorcycles in the Budget of 2002. The changes more clearly reflected environmental impacts and changes in the make up of the motorcycle fleet. We decided not to take small machines – those paying £15pa – out of taxation altogether, because VED helps to ensure that machines are roadworthy and insured, and that the vehicle register is kept up-to-date.

The previous system of VED for motorcycles had three bands based on engine capacity:

<i>Motorcycle VED – structure before May 2002</i>		
Engine size	Annual VED (£)	No. vehicles
Up to 150cc	15	322,000
151cc-250cc	40	48,500
Over 250cc	65	585,000

²⁹ DTLR press notice, "[New VED rates for goods vehicles starts on December 1](#)", 30 November 2001

³⁰ HM Treasury, *Budget 2002*, HC 592, April 2002, para 7.38

³¹ HM Treasury, *Reforming motorcycle vehicle excise duty*, November 2001, paras 4.3-4.6

From 1 May 2002 the tax structure became:

<i>Motorcycle VED – new structure</i>		
Engine size	Annual VED (£)	No. Vehicles
Up to 150cc	15	322,000
151cc-400cc	30	88,000
401cc-600cc	45	192,000
601cc and over	60	353,500

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%.³²

In 2008-09 VED rates for motorcycles in the higher bands rose by £1-£2; rates for all motorcycles were frozen for 2009-10.

6 Cars registered before March 2001

When the Labour Government changed the way that VED is 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 the 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.³³

Originally, the reduced rate of VED was first introduced for cars under 1,100cc on 1 June 1999.³⁴ 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.³⁵

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. The arrangements were backdated to March 2000 and owners of qualifying cars automatically received a rebate in March 2001.

³² DfT, *The Government's Motorcycling Strategy*, February 2005, paras 8.3-8.6

³³ op cit., *A new deal for transport: better for everyone*, para 4.125

³⁴ HM Treasury, *Budget 1999*, HC 298, March 1999, chapter 1

³⁵ HM Treasury press notice, "[Reform of vehicle excise duty to protect the environment](#)", 9 March 1999

The reduced rate applied to 2.2 million cars at a cost of £129 million a year.³⁶ In the Pre-Budget Report 2000, the then Chancellor 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 were affected at a cost of £250 million a year.³⁷ 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 since 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 bought in August 2001.

In 2009-10 both the upper and lower rates of VED for pre-March 2001 registered cars rose by £5. From April 2010 the lower rate will be frozen, and the upper rate will increase by £15.

7 Cars registered before January 1973

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 previous 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.³⁸ In the November 1995 Budget the Chancellor announced that cars, light vans and motorcycles over 25 years old would be exempt from VED.³⁹

In Budget 1998 the new Labour Government indicated that the exemption for older vehicles would continue to apply, but it would in future be limited to vehicles made before 1 January 1973, thereby ending the 'rolling' 25-year exemption.⁴⁰ If there is any dispute as to the construction date, the owner will be asked to provide confirmation of the date from the manufacturer.

8 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)

³⁶ op cit., [Budget 2000](#), para 6.60

³⁷ op cit., [Pre-budget Report 2000](#), para 6.58

³⁸ DoT, *Continuous licensing: a consultation paper*, March 1995, p3 [DEP 1393]

³⁹ [HC Deb 28 November 1995, c1064](#); this became Schedule 2, para 1A of the *Vehicle Excise and Registration Act 1994*

⁴⁰ 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*

- 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 people⁴¹ (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
- 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, disabled *persons*, not *vehicles* are exempt from VED under the legislation. 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.⁴²

⁴¹ 'disabled people' defined in Schedule 2, para 19(2) of VERA 1994

⁴² [HC Deb 10 June 2002, c771W](#); the rules on entitlement to the higher rate DLA mobility component and outlined on the [Direct.Gov website](#)

As far as 'mobility scooters' are concerned, there are a number of different types of mobility scooter, otherwise known as 'invalid carriages'. The three different classes that have been identified by the Department for Transport are:

Three types of 'invalid carriage' are defined in 'The Use of Invalid Carriages on Highways Regulations 1988':

Class 1 - manual wheelchair, i.e. self-propelled or attendant-propelled, not electrically powered;

Class 2- powered wheelchairs and scooters, for footway use only with a maximum speed limit of 4 mph;

Class 3- powered wheelchairs, and other outdoor powered vehicles, including scooters, for use on roads/highways with a maximum speed limit of 8 mph and facility to travel at 4 mph on footways.⁴³

The original legislation is section 20 of the *Chronically Sick and Disabled Persons Act 1970* which defines motor vehicles within the *Road Traffic Act 1988*:

20 Use of invalid carriages on highways

(1) In the case of a vehicle which is an invalid carriage complying with the prescribed requirements and which is being used in accordance with the prescribed conditions—

(a) no statutory provision prohibiting or restricting the use of footways shall prohibit or restrict the use of that vehicle on a footway;

(b) if the vehicle is mechanically propelled, it shall be treated for the purposes of the [Road Traffic Regulation Act [1984] and [the Road Traffic Act 1988], except section 22A of that Act (causing danger to road users by interfering with motor vehicles etc),] and the Road Traffic Offenders Act 1988]] as not being a motor vehicle [and sections 1 to 4, [21, 34,] 163, 170 and 181 of the Road Traffic Act 1988 shall not apply to it]; and

(c) whether or not the vehicle is mechanically propelled, it shall be exempted from the requirements of [section 83 of the Road Traffic Act 1988].

(2) In this section—

"footway" means a way which is a footway, footpath or bridleway within the meaning of [the Highways Act 1980] [or a restricted byway within the meaning of Part 2 of the Countryside and Rights of Way Act 2000]; and in its application to Scotland means a way over which the public has a right of passage on foot only or a bridleway within the meaning of section 47 of the Countryside (Scotland) Act 1967;

"invalid carriage" means a vehicle, whether mechanically propelled or not, constructed or adapted for use for the carriage of one person, being a person suffering from some physical defect or disability;

"prescribed" means prescribed by regulations made by the Minister of Transport;

"statutory provision" means a provision contained in, or having effect under, any enactment.

⁴³ DfT, [Code of practice for Class 3 vehicle users](#), December 2005

(3) Any regulations made under this section shall be made by statutory instrument, may make different provision for different circumstances and shall be subject to annulment in pursuance of a resolution of either House of Parliament.

Normally it is an offence to ride or drive on the footway but the *Use of Invalid Carriages on Highways Regulations 1988* (SI 1988/2268) allow invalid vehicles to do so. Invalid carriages are 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.

9 Rebates for car dealers

The rules for how car dealers can claim VED rebates changed in January 2009. Over 1,600 people signed a [petition on the Number 10 website](#) expressing their concerns about this change:

Many Motor Dealers have recently learnt that Government through a finance act in the 07/08 Budget has passed the changes of Road Fund Licence refunds so a Motor Dealer cannot apply for a refund unless they are the registered keeper. This is worth over a Million pounds of income to the Motor Industry which without this will affect Motor Dealers and their employees future in these difficult times. Please petition against this now.

The [Government's response to the petition](#) was as follows:

It is true that the Finance Act 2008 introduced a change in the law relating to the refunding of Vehicle Excise Duty (VED) on the un-expired months remaining on a vehicle licence (the tax disc).

Of course, it is ordinarily an immediate requirement that on taking ownership or possession of a vehicle, that the recipient should also become the registered keeper. But the motor trade, due to the unique nature in which it experiences a turnover of vehicles held in stock, has been extended a specific exception to that rule where the requirement is relaxed for the first three months. This is in order to help alleviate their administrative burdens. Allied to this is the arrangement where motor dealers usually hold trade licences, which can be individually applied to vehicles in their temporary possession that are taken onto the road for demonstration purposes. While a vehicle is part of the trader's stock (i.e. not registered in their name), it is regarded as being in their temporary possession.

VED is also novel because of the notion that it is paid directly to the Government in advance for something that has yet to be consumed. In recognition of this, the refund rules exist to ensure that where someone has paid, but is either unable or has no further reason to use the remaining full months, they are refunded the appropriate amount. It is appreciated that it was open to motor dealers to decide, in taking the refund on behalf of their customers when buying a vehicle from them, whether to price their trade-in offers for vehicles to reflect this.

The petition suggests that the change to refund rules will have a cost for the industry. This implies that the remaining VED was not reflected in vehicle trade-in offers by motor dealers, when buying vehicles from their customers.

As the petition notes, motor dealers will still be able to apply for refunds on any vehicle licences they hold, when they choose to become the registered keeper of those vehicles. However, it must be emphasized that when a motor trader chooses to become the registered keeper this is regarded as marking the end of the period of

temporary possession, and a trade licence (i.e. trade plates) cannot therefore be applied to the vehicle. In practice this means that motor dealers may secure a refund if they intend to keep the vehicle off the public road, under the terms of a Statutory Off-the-Road Notification (SORN). But if, after having become the registered keeper, the dealer has a requirement to take the vehicle onto the public road then it must be licensed and taxed accordingly.

However, given that motor dealers generally prefer not to become registered vehicle keepers it is understood that dealers may now decide to no longer take refunds on behalf of their customers. When a dealer makes that decision, it is also understood that the trade-in offer for a vehicle will no longer reflect any remaining VED.

The Treasury is assuming no gains from the change in refund rules. Motor dealers can support this outcome by ensuring that their customers selling into the trade are made aware of their entitlement to a VED refund, and by ensuring that they take their tax disc from the vehicle.

In summary, legislation was previously silent on the circumstances for a refund, but the change in the law merely supports the policy intention that all that have paid VED should be eligible for a refund.

The changes to VED rebates were legislated for in the *Finance Act 2008*. [Section 144](#) replaced section 19 of the *Vehicle Excise and Registration Act 1994* (VERA) with a new section to provide for the circumstances under which a rebate may be paid on the unexpired portion of a registered vehicle keeper's licence. These changes came into force on 1 January 2009. The [Explanatory Notes to the Bill](#) give the following background information:

Vehicle Excise Duty rebates will now be restricted to a number of prescribed circumstances, as well as to the registered keeper of a vehicle, but including the previous registered keeper in cases where a vehicle has been sold.

As a consequence, rates announced to take effect in further years cannot be forestalled by contiguous vehicle licence surrender and relicensing in the period immediately preceding future rates implementation.

Where a rebate is sought because the vehicle has been destroyed, the clause requires the Secretary of State to be notified of that. Other legislation makes provision as to notification in relation to 'end of life vehicles' and in other cases notification is likely to be by submission of the Vehicle Registration Certificate or otherwise in writing.

The clause allows applicants for nil licences to apply for vehicle licence rebate, to cater to the circumstance where a registered keeper becomes eligible for a nil licence with months remaining on an unexpired licence for which duty has been paid. For example, a vehicle might become eligible for a nil licence if used, or kept by a person being in receipt of the higher rate mobility component of disability living allowance.

10 Evasion

In its 2008 report on VED evasion, the Department for Transport estimated that evasion could cost around £49 million in lost revenue in 2008-09, down from an estimated £79 million in 2007-08, equivalent to about 0.9 per cent of the total revenue that could be raised in that year. The overall rate of unlicensed vehicles in stock in Great Britain was estimated to be one per cent in 2008, down from an estimated 1.7 per cent in 2007, equivalent to

approximately 330, 000 vehicles. The evasion rate for motorcycles was estimated at 3.6 per cent (down from 9.8 per cent in 2007):⁴⁴

Table 5: Rate of unlicensed vehicles in active Great Britain stock, by tax class, 2007 to 2008

Tax Class	2007	Percent		
		2008		
		Estimate	Lower confidence limit	Upper confidence limit
Private and Light Goods	1.4	0.9	0.8	0.9
Goods	1.0	0.7	0.5	0.9
Motorcycles	9.8	3.6	1.5	5.6
Bus	0.8	0.6	0.0	1.5
Exempt	0.9	0.7	0.4	1.0
Other	5.2	1.8	0.0	5.2
All tax classes	1.7	1.0	0.8	1.1

Further work has been done on the high levels of evasion amongst motorcyclists. For example, a National Audit Office report in 2007 put the evasion rate for this group at 37 per cent.⁴⁵ Motorcyclists' groups refuted the figure, arguing that, based on Government figures (see above), it is much lower than the NAO's estimate.⁴⁶

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.

The car tax rules are set out in detail, along with the various application forms, on the [Direct.Gov website](#).

10.1 Licensing and registration

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

In July 1994 the then Conservative Government announced its 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.⁴⁷ This was followed in March 1995 by two consultation papers: one on continuous licensing, and the other on vehicle registration.⁴⁸

In the November 1995 Budget the then Chancellor of the Exchequer announced that the Government had revised its proposals for a VED 'continuous licensing' system to combat tax evasion. Instead of adopting one of the systems proposed in the consultation document, the

⁴⁴ DfT, *Vehicle excise duty evasion 2008*, December 2008, pp1-2 & 7

⁴⁵ NAO, *Vehicle excise duty 2006-07 accounts*, HC 800, 19 July 2007

⁴⁶ see, e.g.: Motorcycle Action Group press notice, "[VED evasion – true figures](#)", 14 February 2008

⁴⁷ [HC Deb 20 July 1994, cc252-53W](#), and: DoT press notice, "New measures to beat the vehicle tax dodger...", 20 July 1994

⁴⁸ DoT, *Continuous licensing: proposals for reducing VED evasion*, March 1995; and *New arrangements for vehicle registration*, March 1995

Government planned to take powers in the *Finance Bill* to introduce a new 'statutory off road notification' system (SORN). 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.⁴⁹ 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.⁵⁰

The Labour Government introduced further reforms to the vehicle registration system to try and deal with the problem of tracing the keepers of vehicles of abandoned cars and of those involved in motoring offences by introducing a system of continuous registration by early 2004. This means that, 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.⁵¹ 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).⁵² In practice, however, individuals were not often prosecuted and any fine would only have been a token amount, 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 system of recording the transfer of vehicles. Under dual notification 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 £1,000.⁵³ The new arrangements were introduced on 24 March 1997.

The Labour Government further tightened the rules with provisions in the *Vehicles (Crime) Act 2001* to tackle car crime, including the tightening of vehicle registration and licensing. Since 1 February 2003 every motorist wanting to get a new tax disc at the Post Office has needed to show either their renewal notice (form V11) or their log book (form V5). The changes to the tax disc rules mean that motorists can no longer get a licence at the Post Office by applying for a new or duplicate log book at the same time. The aim is to prevent criminals licensing and selling vehicles which are not rightly theirs.

10.2 Detection and enforcement

It is an offence not to have a current tax disc in force under section 29 of the *Vehicle Excise and Registration Act 1994*. 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.

⁴⁹ [HC Deb 28 November 1995, c1064](#)

⁵⁰ 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](#))

⁵¹ *Road Vehicles (Registration and Licensing) (Amendment) (No 3) Regulations 2003* (SI 2003/2981)

⁵² repealed in 2002

⁵³ *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 wheel 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:

The policy intention is to prevent evaders of vehicle excise duty from using 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.

As these areas are off the public road it will still be possible to make a Statutory Off Road Notification (SORN) instead of licensing. This measure will therefore force those who are not properly registered with DVLA to submit their details either through licensing or making a SORN.

It will not be possible to take action against vehicles parked in areas associated with a dwelling, such as garages or driveways so there will be no invasion of a homeowner's privacy.⁵⁴

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](#) technology.

11 Views on the VED system

11.1 New system announced in Budget 2008

The major changes to VED in Budget 2008 provoked much comment. For example, a report in *The Daily Telegraph* stated:

The higher rates of vehicle excise duty (VED) being imposed on buyers of new vehicles were among a string of changes that Alistair Darling declared would help create "an environmentally sustainable world". But - unlike for all the other main green tax changes unveiled yesterday - the Treasury did not list the likely impact of its new "showroom tax" on reducing carbon emissions. Critics said it proved that the VED would have a minimal impact on CO2 cuts.

A spokesman for one car company, who asked not to be named, called it "another smoke and mirrors exercise designed to hit car buyers by pretending to help the environment".

Frank Sangster, head of environmental tax at consultancy KPMG, said Mr Darling's attempt to present the VED changes as "green" looked "a little odd".⁵⁵

While *The Times* looked at responses to the Budget changes from members of the public:

⁵⁴ [Explanatory memorandum](#) to SI 2008/2266

⁵⁵ "[Higher car tax slammed as green smokescreen](#)", *The Daily Telegraph*, 13 March 2008

Andrew Howard, of the AA, says: "What is not appreciated about the current Band G is just how 'normal' many of the cars are. It covers people carriers as well as higher-end saloons and 4x4s, so it catches ordinary families as well as the extravagant."

Less obvious Band G cars include the Ford S Max people carrier, the Skoda Superb saloon and certain Vauxhall Astras, Vectras and Zafiras.

The attack on Band G drivers angered many readers of Times Online, who said that it would hit rural communities as well as families. Trevor Roots, of Cairnie, Aberdeenshire, wrote: "It is indefensible. As a former farmer, now living on a rural smallholding, my 4x4 is a necessity. However, to do my bit for the environment I have halved my mileage to less than 6,000 a year. I'm sick to death of being perceived as anti- environment and viewed as nothing more than a 'tax cow'."

Mike Gallie-James, of Chelmsford, added: "Is it better to run a gas guzzler or to run two cars to accommodate family and dogs? I will now surf the web for a 4x4 or people carrier for a family of six, plus dogs."

Farmers and families will not be the only ones to lose out. Showroom tax will be payable on all new cars with emissions above the current average of 160g/km. These include such "average" cars as the two-litre Ford Mondeo at 189g/km.

Drivers set to benefit from the changes include buyers of greener "runarounds", as well as hybrid and electric cars. They will pay no tax for the first year and reduced - or zero for cars below 101g/km - tax thereafter. Cars in these categories include the Fiat 500, Honda Civic hybrid and the battery-powered G-Wiz.⁵⁶

The Conservatives moved an Opposition Day debate on the changes in May 2008. In his speech Philip Hammond, then Shadow Chief Secretary of the Treasury, stated:

As far as the measure's green credentials are concerned, in fact, the percentage increase in duty on a Nissan Micra is larger than the percentage increase on a six litre Hummer or a Porsche Cayenne. In truth, this is an old-fashioned revenue-raising measure. At a time when families are struggling to make ends meet, the Chancellor has hit them with a more than doubling of VED between 2006-07 and 2010-11, from £1.9 billion to £4.4 billion. That is at a time when the average motorist is already contributing more than £1,800 a year on average in tax.⁵⁷

Jane Kennedy, Financial Secretary to the Treasury, responded as follows:

...about 40 per cent. of low-income households that own cars bought since 1 March 2001 have tended to buy cars in the current band C. Those car owners will be better off as a result of this year's Budget changes, as their VED will fall from the current £120 to either £90 or £110 in 2009 (...)

Many drivers of family cars will be better off as a result of these changes. That applies to 24 of the most popular 30 models of cars in the country, including popular versions of the Ford Focus, Renault Clio, Vauxhall Astra and the Citroen Xsara Picasso. It is true that drivers of other versions of those models could pay more. The point of these changes is that motorists can reduce their VED by choosing a cleaner version of their preferred model, or a cleaner car of the same class, if they do not want to change to a cleaner class of car altogether. Encouraging a market in which drivers can exercise their choice does not mean that they must purchase a different type of car. According to the King review, the average driver could reduce his emissions, and of course his

⁵⁶ "Families fall victim to highway robbery", *The Times*, 15 March 2008

⁵⁷ [HC Deb 14 May 2008, cc1460-1465](#)

fuel bills, by 25 per cent. simply by choosing the most efficient car in his preferred class(...)

Most drivers will not be worse off in 2009-10. In fact, we expect about a third of drivers to be better off. The point of our proposals is that they will influence drivers' behaviour and choice of car.⁵⁸

In June 2008 the Leader of the Opposition, David Cameron, took up the issue of VED at Prime Minister's Questions:

Mr. David Cameron (Witney) (Con): ... The next tax hike planned by the Government is to hit family cars, including those bought seven years ago, with massive increases in vehicle excise duty. Is the Prime Minister really going to go ahead with this deeply unpopular tax when families are struggling with the cost of living, or can he give us another of his trademark U-turns?

The Prime Minister: If the right hon. Gentleman looks in detail at the proposal, he will see that the majority of drivers will benefit from it. If he looks in detail at his own policy, it says:

"We recommend...changes in VED, aimed primarily at influencing the used car market where annual running costs comprise a larger proportion of total costs."

What he proposes is a band in excess of £500; that is far worse than what he says that we are proposing.

Mr. Cameron: When is the Prime Minister going to learn that new green taxes should be offset, one by one, by cuts in family taxes? The Prime Minister says that we should look at the detail; let me take him up on that, because he spews out statistics that, in any other walk of life, would result in trading standards officers coming in and clamping him in irons. He says that next year, half of all motorists will be better off or no worse off; that is what he has just said. The full effect of the tax rise is not planned to take effect until 2010, and the Treasury has said that under this regime, 81 per cent. of cars will be worse off. Once again, dodgy statistics from the Prime Minister.

Let us start when the tax was first announced. Can the Prime Minister tell us why the Chancellor, in his Budget speech, made no mention of the fact that the tax would hit people who had bought a car up to seven years ago? Why no mention?

The Prime Minister: It was in the Budget documents. Twenty-four of the 30 top models, which are the most popular models, will have the same or lower tax as a result of it. The right hon. Gentleman says that he supports green taxes. He also said a few days ago that

"there will be tough choices to make for the environment and I won't shy away from them for one moment".

Let us assume that we both agree on the need for green taxes. Let us also agree that we need to deal with polluting cars, and let the right hon. Gentleman tell us that he now supports our policy.

Mr. Cameron: If a company director got up and read out a statement like that, the authorities would be after him. The Prime Minister says, "Let's concentrate on the detail." Let me take one of the things that he has just said. He said that 24 out of the 30 car models will not be affected. That is what he just said. What he is doing when he

⁵⁸ [ibid., cc1470-1473](#)

uses that figure of 24 is treating the Ford Focus, for example, as one model. In fact (...) [t]here are 40 models of the Ford Focus. Only three of them are better off. When will the Prime Minister stop using such dodgy statistics to back up his figures?

The Prime Minister: As a result of the measures that are being taken to deal with polluting cars, a third more cars in this country are low polluting and a quarter are less polluting, so we are making advances in encouraging people to buy the less polluting cars (...)

Mr. Cameron: ... The former Transport Minister, the hon. Member for South Thanet (Dr. Ladyman) ... said:

"A 'green' tax that you cannot avoid by changing your behaviour is not a 'green' tax, it's just a tax."

What on earth is green about taxing someone who bought a Ford Mondeo five years ago?

The Prime Minister: Now the right hon. Gentleman says that there can be green taxes, but he excludes any tax on a car from being a green tax. Does he not know that the reforms will save 1.3 million (...) tonnes of CO₂ and to increase by 650 per cent. the number of clean cars that pay little or no vehicle excise duty because they are the least polluting cars. So we are making a change in the way we use energy for the environment. The Leader of the Opposition says that he wants significant incentives to encourage the ownership of vehicles. Why will he not support the measures that are before us? ⁵⁹

The announcement in the Pre Budget Report 2008 of a cap on any VED increase in 2009 and 2010 was generally welcomed by motoring organisations but questions remained about what would happen after 2010. ⁶⁰

11.2 SUVs, or '4x4s'

Over recent years, much of the focus in the press about the changes in the Budget to VED bands has focused on the potential impact on the sale of sports utility vehicles (SUVs), so-called '4x4s' or 'Chelsea tractors' which environmental campaigners state are 'gas-guzzling' vehicles which are contributing the climate change. Along with the broad environmental campaign groups, like Greenpeace and Friends of the Earth, there are other, dedicated, pressure groups such as the [Alliance Against Urban 4x4s](#). A post-Budget 2006 article in the *Financial Times* questioned whether SUVs were really the worst polluters on the roads and stated that the Treasury had dismissed claims that it was specifically targeting this group of vehicles. ⁶¹ Another report stated that the 'greener' vehicles that the changes were purportedly designed to benefit were largely already exempt. ⁶² Further, the motor industry believed that the extended graduated structure would catch more family vehicles such as the Ford Galaxy, Fiat Stilo, Vauxhall Vectra and Volvo V70 estate. ⁶³

Similar issues were highlighted in the coverage of Budget 2008. For example, the *Financial Times* said:

⁵⁹ [HC Deb 4 June 2008, cc765-767](#)

⁶⁰ "[Gas-guzzler drivers get a reprieve](#)", *The Independent*, 25 November 2008

⁶¹ "Road tax rise seen as no obstacle to 4x4 sales", *Financial Times*, 24 March 2006; controversial motoring journalist and broadcaster Jeremy Clarkson has written at length on related issues, see, for example, "I'm here to save the world", *The Sunday Times*, 9 October 2005

⁶² "Green campaign sees fuel guzzlers hit by higher levy", *Financial Times*, 23 March 2006

⁶³ *ibid.*

Britain's car industry lobby attacked the changes in the vehicle excise duty regime as a sales tax in disguise. Environmentalists and some business commentators said it would do little to deter consumers from buying gas-guzzlers.

The government published a review of low-carbon cars by Julia King, Aston University's vice-chancellor, in which she urged Britain to "seize the opportunity" of emissions-cutting technology, which has become a multibillion-pound global industry.

Analysts said the measures were likely to accelerate the push by car-buyers, companies, and the car industry from petrol vehicles into lower-emission diesels, as well as into newer technologies such as hybrid cars.

However, Mr Darling's proposals were immediately attacked from different quarters. The Society of Motor Manufacturers and Traders said the new tax on high-emitters would have little effect on CO₂ and create an "unwelcome market distortion". The lobby group pointed out that small and midsize cars accounted for the bulk of carbon emissions produced by vehicles, which make up 22 per cent of Britain's overall carbon output.

Other commentators said the new tax was still too little to deter buyers of big-ticket, gas-guzzling cars. Russell Marsh, head of policy at the Green Alliance, said the highest first-year charge of £950, then £455 in subsequent years, would not be enough to discourage the drivers of high-end vehicles. The Treasury was "more interested in filling the holes in its finances" than changing behaviour, he said.

The highest-emission vehicles in a new 13-band regime would be charged £950 in VED in the first year, then £455 afterwards.

David Brennan, UK managing director of leasing group LeasePlan, said the tax changes would "create much more awareness and get the message over" on greener cars. However, he added: "It will make employers and employees choose more carefully, but I'm not sure it will massively change demand." With lower-emission diesel vehicles already accounting for about half overall sales, manufacturers would need to push into hybrid and other new technology, industry participants said.⁶⁴

11.3 Conservative Party policy groups

In 2007 many of the Conservative Party's policy groups, set up after David Cameron became Party leader, reported. Two in particular, the Quality of Life and Economic Competitiveness reports, looked at transport. 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 is poorly targeted and ineffective and proposed replacing it with a purchase tax:

[T]he UK's Vehicle Excise Duty system is failing to prevent highly polluting new vehicles from entering the fleet. This is unlikely to change, despite the government's announcement of a £400 rate for the top VED band – annual road taxes are of limited consequence to new car buyers, since they add a relatively small premium to the purchase price.

In contrast, an emissions-related tax directly at the point of purchase would increase the price differential between clean and polluting new cars more steeply. Such a tax could be phased in over time as automakers respond by bringing a greater range of efficient cars to market (...)

⁶⁴ "Gas-guzzlers dented by £950 levy", *Financial Times*, 13 March 2008

Annual circulation taxes such as VED are poorly placed to sway new car purchase decisions, and would require draconian increases to do so. It is estimated that a VED differential of £1,500 or more would be required to shift new car purchase decisions significantly in favour of cleaner vehicles. The introduction of a purchase tax would obviate this. **We recommend more modest changes in VED, aimed primarily at influencing the used car market where annual running costs comprise a larger proportion of total costs. These levels of VED may also lead to slower depreciation rates for cleaner cars, thus indirectly influencing new purchase decisions. On this basis we propose increasing the VED differential between the top and bottom bands of emissions performance, capped at a maximum of £500.**

The granularity of the existing VED structure, in which taxable bands increase in increments of no more than 40g CO2 per kilometre, ceases for the top 'G' band, under which all cars over 225g pay the same. An extra charge should be introduced for the carbon produced by the top-emitting vehicles, which can range up to 400g and we would therefore create a new 'H' VED band for super polluters above the existing A-G range, starting at 300g CO2 per km.⁶⁵

None of these recommendations has as yet been adopted as official Conservative Party policy.

⁶⁵ *Blueprint for a Green Economy*, September 2007, pp343-344 [emphasis in original]

12 Appendix: VED rates, 1910-2001

Date	Tax rate for motor cars
1910	<p>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:</p> <ul style="list-style-type: none"> • 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	<p>Vehicles not exceeding 6 horsepower - £6</p> <p>Each extra unit of horsepower - £1</p>
1934	Horsepower tax reduced from £1 to 15s
1940	Tax raised to £1
1 January 1948	<p>A new flat rate tax was imposed:</p> <ul style="list-style-type: none"> • 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 <p><i>(This distinction between cars registered before and after 1 January 1947 continued to 1968 but has been ignored in the following list)</i></p>
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
30 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)