Energy UK

The voice of the energy industry

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Sent via email only to ETTAnswers@hmtreasury.gov.uk

Energy UK Response: Vehicle Excise Duty - Call for evidence

Energy UK welcomes the opportunity to feed into this call for evidence on Vehicle Excise Duty (VED). We fully support plans to reform VED to strengthen the incentives for drivers to make cleaner vehicle choices and in particular to choose zero emission vehicles (ZEVs).

Key points that we would like to emphasise from our response include:

- The vehicle taxation system must encourage drivers to make the cleanest vehicle choice possible. The **primary aim of changes to VED should be to encourage drivers to adopt ZEVs,** as their widespread adoption is essential for meeting our legally binding 2050 net zero target**.**

- **First year VED rates for non-ZEVs should be increased and ongoing liabilities should be linked to emissions levels**. The first year VED rate should be increased so that it is reflected in the sticker price or rolled into the leasing payments. As well as raising VED for polluting cars today, Government should also signal a roadmap towards further increases in the future as we get closer to the internal combustion engine phase-out date, which Energy UK believes should be 2030.

- **ZEVs should continue to be exempt from VED** for the foreseeable future and the zero rate should be reserved for ZEVs only. When changes are eventually required, they should be introduced gradually and communicated well in advance. Even once 100% of new sales are ZEVs, the majority of the vehicles on the road will still be ICE vehicles, as such moving away from a ZEV VED exemption does not need to be rushed.

- **Changes to VED should not be considered in isolation** and must be considered alongside fuel duty levels, regulations and grants for ZEVs. The overall impact of incentives and disincentives that apply both to ZEVs and ICE vehicles must be taken into account. For instance, a Bonus Malus scheme – as advocated by Transport and Environment[1] and others – could ensure the financial sustainability of the plug-in car grant while strengthening the (dis)incentive to buy a (more) less polluting vehicle.

Please do get in touch if you have any questions or would like further information.

Sincerely,

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1 https://www.transportenvironment.org/sites/te/files/publications/Incentivising%20electric%20cars%20in%20a%20growing%20market%20FINAL.pdf

Energy UK Response to Vehicle Excise Duty: call for evidence

Introduction to Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas.

Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies, right through to new, growing suppliers, generators and other market participants including aggregators, software providers and electric vehicle (EV) chargepoint operators.

Energy UK members are fully committed to the uptake of electric vehicles, which are powered by increasingly low carbon electricity. They are very active across the EV space, offering EV tariffs, smart charging and vehicle to grid, leasing EVs either directly or in partnership with other companies, and installing chargepoints in homes, businesses and in the public domain.

Reforming First Licence VED Rates

1. Why are first licence VED rates currently failing to discourage many car buyers from making higher emitting choices?

There are various factors that have limited the impact of first licence VED rates:

- The majority of buyers purchase their vehicles on finance[2], paying monthly payments rather than a lump sum. As first-year VED costs are typically rolled into a new car's on-the-road price, the impact of a higher rate is reduced. For instance, a £500 VED premium spread over a 48-month contract costs an additional £11 a month. For perspective the average finance payment is around £266 a month[3].
- Combined with the above, for company car vehicles the benefit in kind (BIK) rate is much more important than the VED rate. The benefit in kind tax is based on the P11D value of the car and removes VED from the taxable amount. Fleets and vehicles make up over half of new registrations[4] and while recent changes to the BIK rate provide a strong incentive to adopt lower and zero emission vehicles, these changes have not yet had a chance to filter into the latest numbers.
- When private buyers of 'new' cars buy an ex-demo or pre-registered car the first VED rate is avoided, with a flat VED rate there is therefore no tax incentive to pick a cleaner vehicle.

The Eionet report[5] linked to in the consultation document states that "[…] taxes and incentives – if sufficiently large and targeted – can have a strong impact on the composition of new car sales" (p10). This suggests that one way to discourage the purchase of higher emitting vehicles is to increase the VED rate. The report does however also highlight potential unintentional consequences and the importance of country context.

2. What are your views on higher first licence VED rates for more polluting vehicles?

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[2] https://www.fla.org.uk/research/motor-finance-key-statistics/

[3] https://www.kwik-fit.com/press/motorists-costs-running-at-one-hundred-and-sixty-two-pounds-per-month-excluding-cost-of-the-car

[4] https://www.smmt.co.uk/vehicle-data/car-registrations/

[5] https://www.eionet.europa.eu/etcs/etc-atni/products/etc-atni-reports/eionet_rep_etcacm_2018_1_vehicle_taxes

We would welcome stronger disincentives for polluting vehicles, in particular through a higher first licence VED rate. This should apply to all non-ZEVs. While more polluting vehicles pay a higher first licence VED rates at present, the current regime has not proven to be effective in encouraging drivers to make cleaner vehicle choices. The premium paid is also significantly lower than many other European countries. There is therefore scope to create a much stronger price signal with first licence VED rates, something that Energy UK would support. This should also be accompanied by linking ongoing VED liabilities to emissions, as argued in response to question six below.

As well as increasing first licence VED rates for polluting cars today, Government should also signal a roadmap towards increasing the rates further in the future as we get closer to the ICE phase-out date.

3. How would this impact the vehicles that manufacturers sell in the UK?

Insofar as it encourages drivers to make cleaner vehicle choices, this would likely increase their sales. As demand shifts from more to less polluting vehicles this would in turn increase the incentives for vehicle manufacturers to supply the UK market with these vehicles, including through both imports and UK manufacturing. It would also drive more clean vehicles into the second hand market.

4. What are your views on the potential ways of enhancing the impact of first licence VED outlined above?

The proposed granular VED system appears to be an effective method to avoid cliff edges and reward marginal carbon efficiencies. Crucially however the disincentive for more polluting vehicles should be increased to counteract the recent increase in average carbon emissions of new cars and put us on a pathway compatible with our net zero emissions target.

It may also be appropriate to consider instating periodic reviews of VED rates, if that is not already the case. With the uptake of ZEVs likely to accelerate rapidly over the coming 5-10 years it may be necessary to revisit VED rates to ensure the tax regime remains financially sustainable and the zero VED rate for ZEVs can be sustainably maintained.

We would also suggest including the first year VED rate into the company car tax formula. As referenced in response to question one, the benefit in kind tax is based on the P11D value of the car which removes VED from the taxable amount. Including the VED rate in the P11D value would enhance the effect of increasing the first licence VED rate for the most polluting cars and make ZEVs a more attractive proposition. This change would not impact the private vehicle market directly (although it may help increase the supply of ZEVs to the second hand market) so should not be politically contentious.

Greening VED after first registration

5. For new vehicles, do you think that the government should base ongoing VED liabilities on carbon emissions, rather than just at first registration?

Yes.

The link between ongoing VED liabilities and carbon emissions needs to be strengthened. Current incentives are weak causing a particular gap for second hand cars. The vehicle taxation system must encourage drivers to make the cleanest vehicle choice possible. The existing regime should be reformed to achieve that, including increasing the first year VED rate and by linking ongoing liabilities to emissions levels. The flat rate should be replaced with a progressive system. To avoid replicating the current issues with the first licence rates (cliff edges and carbon being treated differently) a granular model should be considered. There is also an opportunity to simplify the taxation regime by harmonising first year and ongoing VED liabilities.

Crucially, the zero VED rate should be reserved for ZEVs and maintained for the foreseeable future. To deliver this while ensuring that the tax regime is financially sustainable, rates for non-ZEVs should be revised accordingly over time.

6. Do you think the government should reform VED rates for vehicles registered from 1 April 2017 so their liabilities reflect their carbon emissions?

No.

While Energy UK supports linking VED rates to carbon emissions we do not advise making retrospective changes. This would undermine driver confidence in the taxation regime and risk turning them against the transport decarbonisation agenda entirely, as seen with the 'Gilets Jaunes' movement in France. Instead, first year and ongoing VED liabilities should be reformed for new registrations, to avoid penalising those that made their purchasing decision in good faith.

More generally, the (dis)incentives for (more) less polluting vehicles need to be considered in the round, including grants, VED, fuel duty levels, Company Car Tax, etc. They need to be pulling in the same direction, encouraging drivers to make the cleanest possible vehicle choice and penalising the purchase and use of the most polluting vehicles.

7. Are you aware of any unintentional perverse environmental incentives that have developed over time relating to VED on vehicles first registered prior to April 2017? Do you think government should take any action relating to this?

VED rates for cars registered prior to April 2017 have not kept pace with improvements in vehicle emissions meaning that some older, more polluting cars face a lower tax burden than newer, cleaner models. This has the strongest impact in the second hand market where (dis)incentives are weakened, as noted in the consultation document. That being said, as referred to in response to question six, we do not think it is advisable to make retrospective changes to VED rates.

Ultimately, the focus of the changes to the vehicle taxation regime should be to encourage drivers to make the cleanest vehicle choice possible, notably to opt for a ZEV, without 'shifting the goalposts' or penalising them for earlier decisions made in good faith. For this to work most effectively drivers will need strong, easy to understand and consistent price signals.