Green shoots in the Autumn Budget

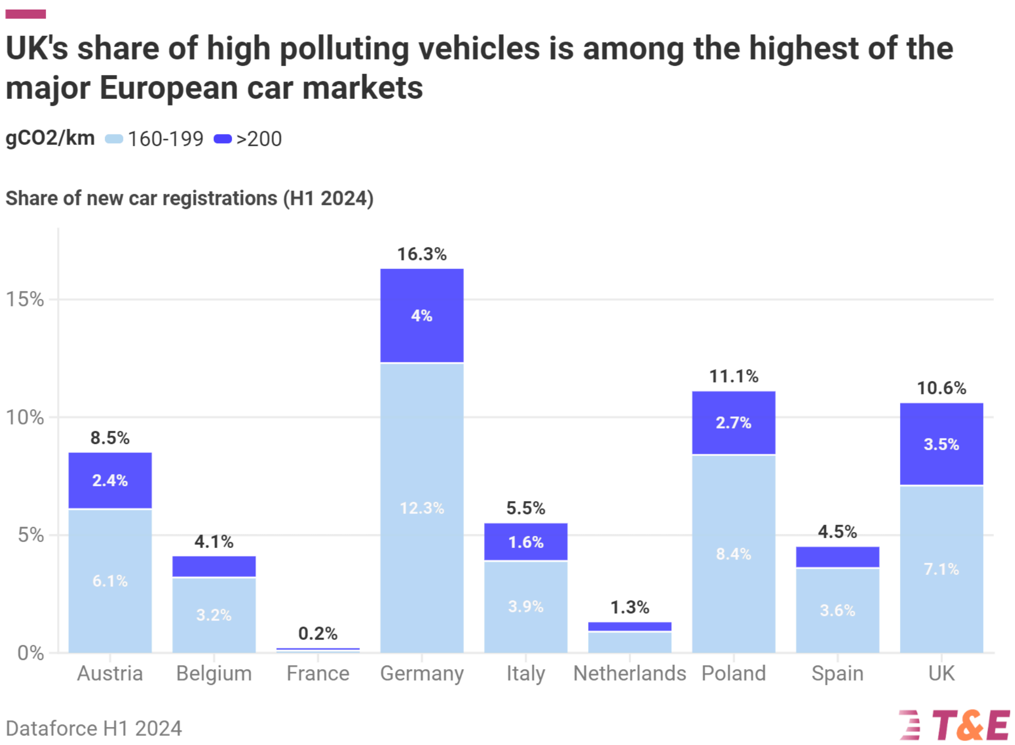
Changes to vehicle taxation are a step in the right direction - but more needs to be done

1. Vehicle Excise Duty reforms are a good step, but the UK still falls far behind European neighbours

Uplifting first year Vehicle Excise Duty (VED) - the tax paid at the point of purchase of a *new* car - rates for polluting cars was the right move by the Chancellor.

Under the existing system, T&E analysis[1] shows that tax rates applied to new petrol cars in the UK fall significantly short of other European countries - for an average petrol SUV, the UK is the 19th lowest of 23 countries that have acquisition taxes.

The result has been that the UK has a disproportionately high share of high polluting new cars compared to other major European car markets. In the private market, the UK is particularly bad for highly polluting cars with a 14.3% share above 160gCO2/km - behind only Germany.



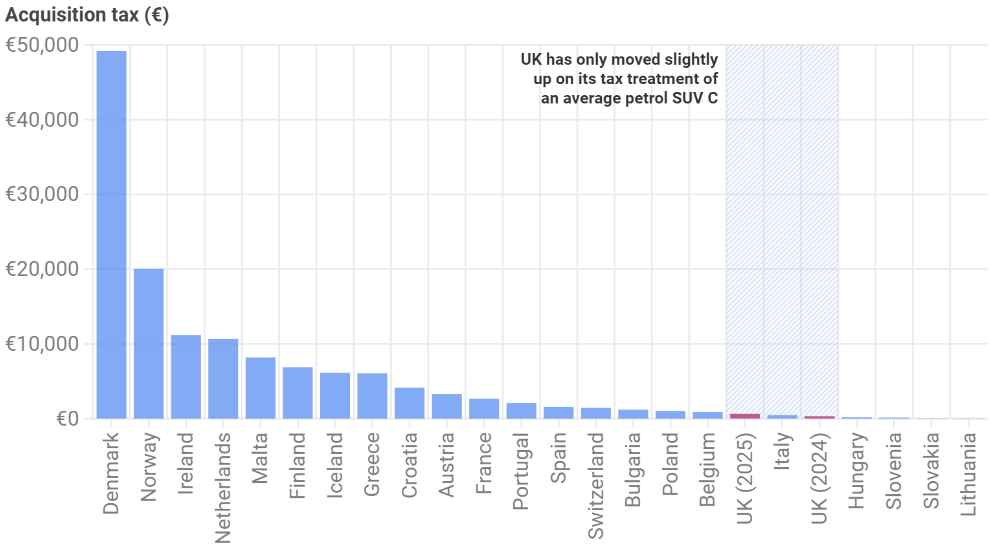
From next year, these higher polluting cars will now be faced with double the first year VED compared to 2024, with cars between 160-199gCO2/km soon having to pay between £1,360 and £3,300 and cars above 200gCO2/km now having to pay between £3,300 and £5,490. Meanwhile, BEVs will only be taxed at £10.

[1] See T&E's Good Tax Guide interactive tool for further details.

Widening the tax differential will help to tax pollution more fairly and make BEVs more attractive to new car buyers, which will be important as ZEV mandate targets ramp up.

However, the new first year VED rates coming in from 2025 do not go far enough when compared to other European markets and still puts the UK way behind when it comes to taxing high polluting new cars. When looking at an average petrol SUV C size segment (150gCO2/km), the changes for 2025 only move the UK from being the 19th lowest to just 18th.

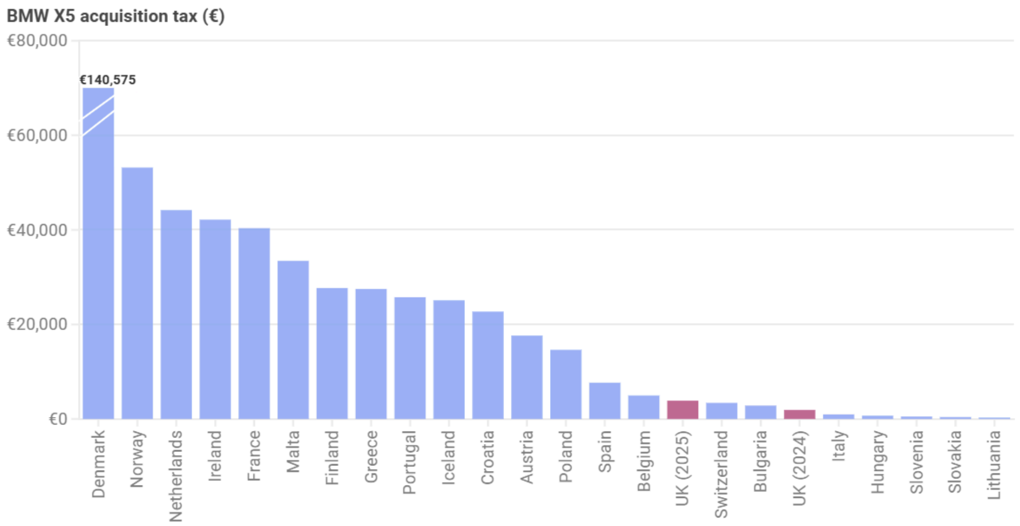
The UK's acquisition tax for an average petrol SUV C still remains low compared to other European countries



Average petrol SUV C (150gCO2/km), C segment refers to a "Compact" SUV

For a very high polluting model, such as a BMW X5 (193gCO2/km), it will only move the UK from being the 18th to the 16th lowest taxing country out of 23 for acquisition tax.

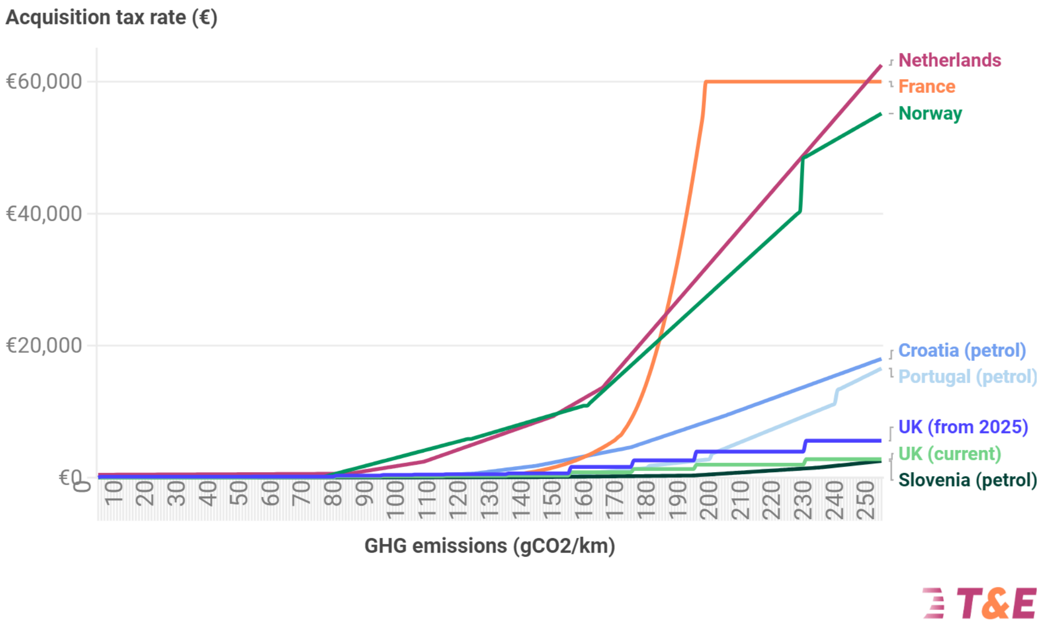
Reforms to 1st year VED still fail to adequately tax the highest polluting new cars



Based on a BMW X5 (193gCO2/km, Medium-Large SUV E)

For countries that use the same CO2 based model, the UK is significantly behind. While doubling first year VED for new cars over 75gCO2/km was the right step, next **a variable multiplier should be applied so that the rate of increase is higher depending on the CO2 band of the car**. Meanwhile, **first year VED rates for plug-in hybrids should also reflect their real world emissions** - the rise to £110 was a good step but it could have gone further.

Other countries with similar CO2 based acquisition tax systems tax high polluting vehicles far higher



2. **Changes to company car taxes will ensure the corporate channel continues to lead the way on switching to greener vehicles**

    a. **Extension of preferential rates for BEVs**

T&E analysis shows that the UK's Benefit-in-Kind (BiK) is one of the most progressive company car taxes in Europe. BiK has been a critical enabler of the UK's BEV transition - leading to BEVs making up 22% of new corporate cars in 2023 and 41% of new corporate cars in the leasing segment[2].

Maintaining this incentive beyond 2028 is smart policy due to the higher mileage of company cars, shorter ownership periods to more quickly feed the used market with affordable BEVs, and companies being better placed to absorb higher upfront costs than private buyers. This is a clear signal from the government that they want to support the transition to EVs.

However, blanket low BiK rates for BEVs cannot last forever, with the corporate channel currently responsible for a disproportionate share of UK SUV registrations including in the BEV

[2] Leasing is a segment of the corporate channel, making up over a third of all new corporate channel registrations.

market. The Government should look at **future BiK reform that can help to shape the corporate channel towards smaller, more affordable BEVs**.

b. Uplifting rates for plug-in hybrids

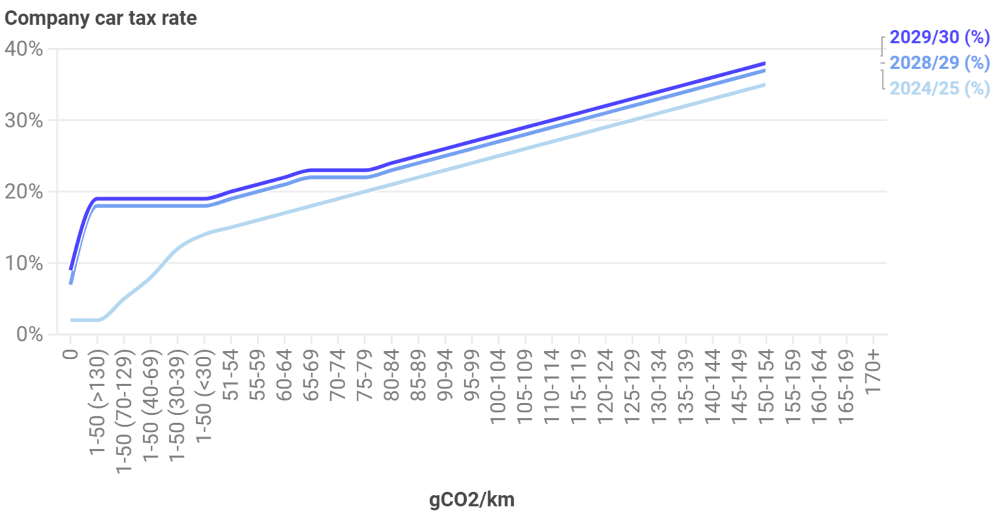
PHEVs are very popular in the corporate channel, with T&E analysis showing that nearly three-quarters of new PHEVs in 2023 coming through this channel.

However, data shows that their real world emissions are around 3.5 times the official values. ICCT research highlights that this issue is worse among company car drivers - the real world electric driving share for corporate PHEVs is 11-15% compared to 45-49% for private.

The new tax rates from 2028-29 will mean PHEVs will pay 18% instead of between 2% and 14% in 2024-25. This is a step in the right direction to ensure taxation better reflects the real world performance of these vehicles but it could have gone further.

Changes to future tax rates will make plug-in hybrids less attractive to company car drivers

Most plug-in hybrids fall within the 1-50gCO2/km category

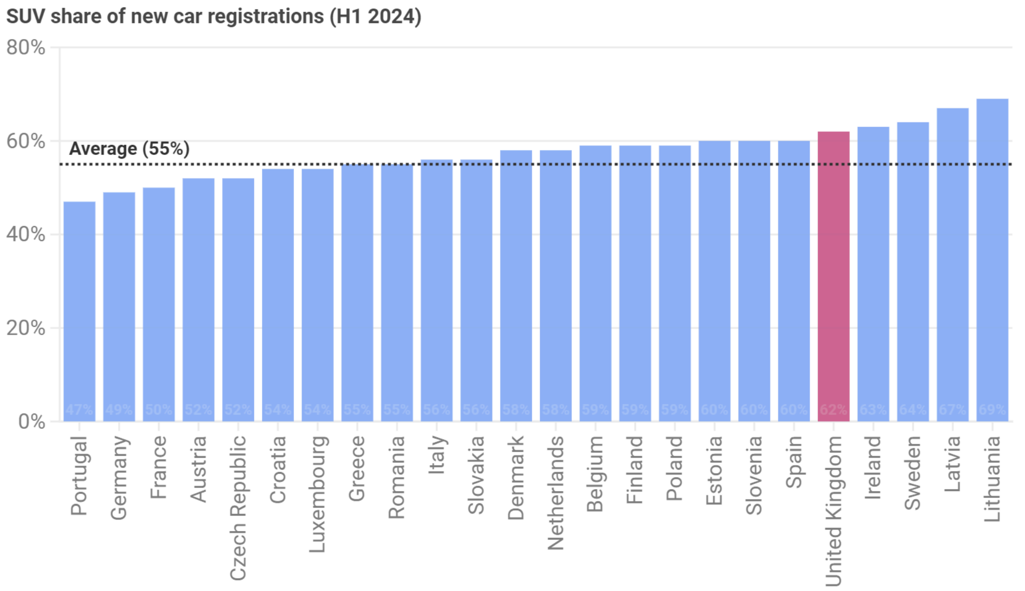


Numbers in brackets for 1-50gCO2/km represent electric range of car in miles.

3. The Treasury should go further to tackle growth in SUV sales

The UK does not only have a high share of high polluting cars, but also a high share of SUV sales. SUVs made up over 62% of new car sales in the first half of 2024, one of the highest in the EU27+UK. Over 600,000 SUVs have been sold in this period, the second highest in Europe, with the UK on track to break last years' record of 1.1m SUVs sold.

The UK's SUV share is one of the highest in the EU27 + UK



Source: Dataforce H1 2024
Note: Data is unavailable for Bulgaria, Cyprus, Hungary and Malta.

This is concerning for several reasons. Bigger cars are associated with higher environmental impact & resource use, encroachment on space of other road users & increased threats to safety of other road users - particularly pedestrians & cyclists.

The UK should **introduce a weight tax on new cars, initially targeted at the heaviest 10% of non-zero emission cars and heaviest 5% of new BEVs** to halt the shift to larger, more dangerous cars.

We welcome the Government's decision to treat double cab pick-up trucks as company cars for tax purposes, meaning these vehicles will now need to pay BiK.

Recommendations

1. **Further uplift first year VED rates for higher polluting new cars by applying a multiplier based on CO2 bands.**
2. **Ensure first year VED rates for PHEVs reflect their real world emissions.**
3. **Introduce a weight-based element to first year VED targeted at the heaviest 10% of new non-zero emission cars and the heaviest 5% of new BEVs.**
4. **Phase in reforms to BiK from the late 2020s/2030 to help shape the corporate market towards smaller, more affordable BEVs.**

Further information

Ralph Palmer

UK Electric Vehicles & Fleets Officer

Transport & Environment

ralph.palmer@transportenvironment.org