BVRLA response to HM Treasury's Vehicle Excise Duty (VED) Call for Evidence

The BVRLA represents the demand side of the automotive industry. Our members engage in vehicle rental, leasing and fleet management, purchasing around 50% of new vehicles sold annually in the UK. The sector supports over 465,000 jobs and supplies UK businesses and consumers with a combined fleet of over five million cars, vans and trucks.

We appreciate the highly consultative approach that HM Treasury has taken on the issue of Vehicle Excise Duty (VED). We hope to continue this collaboration and engagement across all aspects of the vehicle taxation agenda.

While we welcome this Call for Evidence it is important to flag that VED has already had two significant changes in the last three years. The 2017 reform of the VED system significantly increased the tax burden for fleets. The 2020 shift to WLTP base CO2 emissions has created a further increase in fleet VED burdens.

Given the enormity of these changes it would be wholly inappropriate to use any VED reform resulting from this Call for Evidence as a mechanism to further increase the fleet VED burden. To support the fleet sector and automotive demand post-COVID we believe HMT should institute a VED rate freeze for 2021 and make a commitment that any reformed VED system is revenue neutral for the fleet sector.

The BVRLA recognises that any reforms introduced in 2022 are likely to be the last phase of CO2 linked motoring taxation. As the zero emission vehicle car parc grows and connected car technology develops, the current range of emissions based motoring taxes is likely to become obsolete towards the end of the decade.

It is critical that the Government engage with this challenge as soon as possible and that industry is able to actively contribute to the evolution of motoring taxes. We will need a system that will work for end users and drive the right behaviours. This work needs to start in the near term if we are to have the time needed to create the complex systems needed for the vehicle taxation system of tomorrow.

Call for Evidence Questions

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

- VED is generally rolled into the combined lease rate of a vehicle and makes an insignificant difference to the monthly cost (for example, an additional £500 in VED spread over 36 instalments = £14 per month).
- In many cases, OEMs will provide additional marketing support or discounts on higher-emission vehicles which can offset any increase in the first year VED charged.

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

For the reasons outlined above, increasing the first year VED rate is an ineffective response to the challenge of changing purchasing decisions. It would make more sense to spread the tax cost over the life of the vehicle via a higher standard VED rate.

Used car buyers are likely to be influenced by a higher standard VED rate. This would mean reduced demand for higher emission used cars, which would result in lease companies having to set lower residual values for them. A lower residual value would mean that the monthly lease rate would be higher, also putting off new car customers. This mechanism is likely to be more effective than relying on higher first-licence VED rates.

The BVRLA believes that the government should introduce a revised regime where the first year rate and standard rates are replaced with single CO2-based standard rate for the life of the car. This single "lifetime rate" should rebalance the current VED which is loaded towards the first year.

We propose that the new "lifetime rate" should be set at an amount equivalent to one-fifth of a car's total five-year VED burden under the current regime (first year rate plus four years of the standard rate).[1] This change would be revenue neutral for government over the first five years, but more appropriately rebalanced. As this new rate would continue for the life of the car it would have a powerful impact on the used market and create the purchasing incentives HMT desires.

We recognise that higher emitting vehicles should pay a greater level of tax and the above proposal would create a larger lifetime VED burden on all vehicles where the first year payment is above the standard rate. Due to this double impact of the higher lifetime tax burden and residual value impact any additional taxation on "higher emitting" cars would be unnecessary and unduly punitive.

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

Hard to say, but potentially very limited impact. OEMs can counteract the impact of higher first year VED by providing more discount on the initial car price.

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

- We are concerned that it won't be effective in influencing consumer choice or what cars OEMs promote to the UK market.
- Higher first year VED will also have a disproportionate impact on the vehicle rental and car club sector, which tends to dispose of its vehicles after the first year. Any significant increase in costs here could damage their ability to support people trying to rely less on private car use. It would also create an unfair cost advantage for Peer 2 Peer rental companies which rent out older, more polluting used vehicles (typically 6-7 years-old) that would have much lower annual VED costs.

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 pre-2017 system was effective at doing this.
- The standard rate and first-year rate should be equal and linked to CO2.
- Going forward, a more granular, CO2-based system should be introduced. Single gram granularity would be too onerous from a systems point of view and we have concerns that OEMs cannot supply sufficiently reliable CO2 data at the point of vehicle quotation to give customers an accurate tax figure.
- We believe that 10g/km increments would be effective and give sufficient flexibility from a systems and data accuracy point of view.
- Going forward, the revised "lifetime rate" we suggest should be set at an initial level that does not alter the total tax burden a vehicle would have faced based during its first five years under the old VED regime.[2]

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, we do not support the principle of retrospective tax changes, which punish people for decisions they have already made.

[1] See Appendix

[2] See Appendix

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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?

Again, the principle of any retrospective action is something we do not support.

8. Do you think motorcycles should be taxed based on carbon emissions?

No comment.

9. What impact would this have on the behaviour of those looking to purchase a new motorcycle?

No comment.

10. Should the government continue to take account of NOx emissions if it reforms the VED system?

No, NOx is not measured accurately enough on an individual vehicle model level. With RDE2 compliance ICE vehicles now meet very high NOx emission in the real world.

11. Is the signal to purchase RDE2 compliant diesel cars strong enough?

Yes, and this is in line with the incentives also available within the company car tax regime.

Additional Comments

1. Any reformed VED scheme must set out rates for at least five years from implementation

The current structure of unknown annual VED increases is an unnecessary pain point for the fleet sector. Leasing quotes are generated well in advance of any order. This means that for a period of every year leasing members are required to make quotes that they know will be inaccurate. Once the new values are released there is a significant administrative burden of changing systems and re-quoting accurately. Inevitably there can also be cancellations from the requotes.

For rental members, a lack of foresight on VED increases is even more problematic. Some of their contracts cover several years and have a set value, meaning they are unable to account for unknown increases to VED. As it cannot be included in the contract, the cost of a VED increase has to be carried by the rental firm. That the cost is unknown further complicates the matter for firms as they cannot budget for it. As contracts often deal with significant volumes of cars, even minor changes to the rates can be very expensive.

The BVRLA understands both the desire to keep the Chancellor's hands “untied” and to link this excise duty to inflation. Due to system challenges and indirect impacts, VED is not an appropriate measure for unconsulted alterations. The link to RPI and the need for the annual increase is appreciated, although CPI is a more appropriate measure.

The BVRLA proposes that any annual increases for the new VED regime should be mapped out for the five years following the 2022 introduction date. If the duty needs to be linked to inflation, then we believe increases should be in line with CPI. If publishing future rates using a predicted CPI locks in higher increases than would have actually resulted if the increase was made on an annual basis, this is a cost BVRLA members are willing to accept. Foresight is more important than the lowest possible increase.

2. Any reformed VED scheme must be simple and work with industry and DVLA systems

A changed VED system will effectively create a third concurrent VED regime (pre-2017, 2017-2022, 2022 onwards). The BVRLA believes that the reformed system should look to create as little additional complexity as possible to avoid the potential for confusion amongst fleet operators and vehicle owners. Our suggestions of 10 gram bands, a set rate for the life of the vehicle and foresight of rates all work to this end. Ending the "expensive vehicle premium" would also remove an unneeded element of complexity.

IT development work will require time and so forewarning of the outcomes of any VED reform is key. The BVRLA reiterates its offer to help HMT engage directly with members and data providers to understand systems constraints and lead times to reduce the possibility of unintended consequences from any policy change.

We also strongly suggest HMT engages with DVLA as early as possible in the process of VED review to understand their systems change capabilities. This will ensure fleet users and consumers have the best possible experience of a change.

3. The government needs to work with the fleet sector to start a fundamental review of vehicle taxation

Given the transition to zero-emission transport and the possibility of road pricing, any new VED system introduced in 2022 will be one of transition. More fundamental changes to the whole structure of vehicle taxation will be required as we reach the end of the decade.

These changes are likely to require huge shifts in thinking about vehicle tax as well as expertise and technology to practically implement them. All of these take time. For context, the transition to WLTP based emissions occurred over a period of three years and in many cases could not be implemented in time from an IT or data perspective.

4. Any VED refund must be on the amount paid and not a lower amount

Rental firms regularly hold cars for less than 12 months. Currently, firms are reimbursed at the lower of the first year and standard rate when they dispose of a vehicle and request a refund for their outstanding months. We ask that, whatever the form of the reformed VED system, there is a commitment that refunds are based on the original amount that was paid.

5. £0 VED for zero emission vehicles (ZEVs) must be maintained until at least 2025

There is still a significant price gap between ZEV and ICE cars, as this is unlikely to change in the most competitive car segments until at least 2025. It is too early to drop any measure which assists with the affordability of ZEV cars.

The £0 VED rate for ZEVs is also one of the few support measures that also impacts the market for used ZEVs. Without a healthy used ZEV market, the residual values (RVs) of ZEVs will decline. Weak ZEV RVs make new ZEVs more expensive to finance and less accessible to consumers. Ensuring the health of the used ZEV market is key to the transition to zero emission road transport and the £0 VED rating plays a critical role in this.

The BVRLA calls for a fundamental review of all vehicle taxation to be launched in the near term to allow for a minimum five year lead time before introduction.

Appendix – BVRLA Proposed VED Structure

The BVRLA is proposing that in 2022 new "lifetime rates" are set at the level that is equivalent to one fifth of a car's current five-year VED burden, rebalancing the first year and standard rates. The "lifetime rate" is then the annual VED rate for the life of the car and can be subject to inflationary increases.

Table 1 gives an illustration of the VED levels that the BVRLA proposal would produce for a rebalanced rate. As the "lifetime rate" will face its own annual inflation-linked increases over time inflation is not accounted for in its initial calculation.

Table 1. Current VED schedule and BVRLA proposal

Current bands CO_2 g/km	First year rate (2020)	Standard rate payable 2021 – 24 (4 x £150)	Total five-year Burden	BVRLA "lifetime rate"
0	£0	£0	£0	**£0**
1 - 50	£10	£600	£610	**£122**
51 - 75	£25	£600	£625	**£125**
76 - 90	£110	£600	£710	**£142**
91 - 100	£135	£600	£735	**£147**
101 - 110	£155	£600	£755	**£151**
111 - 130	£175	£600	£775	**£155**
131 - 150	£215	£600	£815	**£163**
151 - 170	£540	£600	£1,140	**£228**
171 - 190	£870	£600	£1,470	**£294**
191 - 225	£1,305	£600	£1,905	**£381**
226 - 255	£1,850	£600	£2,450	**£490**
Over 255	£2,175	£600	£2,775	**£555**

By rebalancing between the first year rate and standard rate, VED will give the stronger incentive that HMT desires. While the impact would be revenue neutral for the first five years of a car's life, it would differ over the lifetime of the car. Higher emitting vehicles face a higher lifetime VED burden and lower emitting vehicles see greater incentive. If the average life of a UK car is fourteen years, the impact is quantified below.

Table 2. Examples of current VED schedule and BVRLA proposal over the life of a vehicle

Car CO_2 g/km	Total over 14 years – current system	Total over 14 years – BVRLA proposal	Difference
55 g/km	£1,975 (£25 + 13x£150)	£1,750 (14x£125)	-£225
195 g/km	£3,255 (£1,305 + 13x£150)	£5,334 (14x£381)	£2,079

The levels outlined in Table 1 are for the current broad CO2 bands. As stated in our response we believe these bands can be replaced with a more granular system, with minimum bands of 10 grams of CO2. The proposed “lifetime rates” should function as a series of caps for the VED burdens in any granular system. This is outlined in Table 3 below.

Table 3. 10 gram bandings example

New band bands CO2 g/km	**BVRLA “lifetime rate” maximum rate per revised band**
51 - 60	≤ £125
61 - 70	≤ £125
71 - 80	≤ £125
81 - 90	≤ £147

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About the BVRLA

- Established in 1967, the BVRLA is the UK trade body for companies engaged in vehicle rental, leasing and fleet management.

- BVRLA members are responsible for a combined fleet of over five million cars, vans and trucks on UK roads, that's 1-in-8 cars, 1-in-5 vans and 1-in-4 trucks. The vehicle rental and leasing industry supports over 465,000 jobs, adds £7.6bn in tax revenues and contributes £49bn to the UK economy each year.

- On behalf of its 1,000+ member organisations, the BVRLA works with governments, public sector agencies, industry associations and key business influencers across a wide range of road transport, environmental, taxation, technology and finance-related issues.

- BVRLA membership provides customers with the reassurance that the company they are dealing with adheres to the highest standards of professionalism and fairness.

- The association achieves this by maintaining industry standards and regulatory compliance via its mandatory Codes of Conduct, inspection and governance programme and government-approved Alternative Dispute Resolution service. To support this work, the BVRLA promotes best practice through its extensive range of training, events and information-sharing activities.

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