



HM Treasury

# Vehicle Excise Duty for vans: summary of responses

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October 2018



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ISBN 978-1-912809-12-7  
PU2213

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# Chapter 1

## Introduction

### Background

- 1.1 At Spring Statement, the government announced a consultation on reforming the Vehicle Excise Duty (VED) system for vans in order to incentivise van drivers purchasing a new van to make the cleanest choices.
- 1.2 The government is committed to delivering on its climate change and air quality targets. In 2017, only 0.3% of new vans purchased were ultra low emissions whilst vans accounted for 17% of UK greenhouse gas emissions and 33% of total NOx emissions from road transport.
- 1.3 As set out in the 'Road to zero strategy', the government's ambition is for 40% of new van sales to be ultra low emission by 2030. Introducing a strong environmental signal into the van VED system is an important part of achieving this aim.
- 1.4 Since 2014, manufacturers of vans have been required to collect and declare data on the levels of CO<sub>2</sub> emissions from their vehicles. Therefore, the government believes it is the correct time to review the current flat rate of van VED to reflect the environmental performance of different vans.
- 1.5 A public consultation named 'Vehicle Excise Duty for vans' was published on 15 May 2018 and closed on 20 July 2018. It was aimed at N1 light goods vehicles, which are classified by DVLA using tax classes 36 and 39. The government received 20 formal responses to the consultation from two individuals and 18 interested organisations. A list of organisations who responded is provided in Annex A.
- 1.6 This document summarises the responses received and sets out the government's decisions on how to proceed. The government is grateful to all those who contributed to the consultation, both formally through written responses and subsequently during discussions with officials.
- 1.7 Chapter 2 of this document summarises the responses received to the questions set out in the consultation document. Chapter 3 outlines the government response to the consultation.

# Chapter 2

## Summary of responses

2.1 This chapter summarises the main points raised in response to the consultation questions. The government's response is set out in Chapter 3.

### Reforming VED for vans

2.2 The consultation document asked respondents for their views on how an environmental signal could be introduced into the van VED system, and how the environmental performance of vans could be measured.

2.3 Almost all respondents were supportive of the government reviewing the current VED system for vans, which is set at a flat rate per year for most van drivers (currently £250). The majority of respondents were supportive of a new van VED system that reflects the environmental performance of different models.

2.4 There was broad support for the principle of introducing a CO<sub>2</sub> based system. In particular, it was recognised that consumers understand this approach; vehicle labelling allows consumers to make informed decisions; and laboratory tests measure CO<sub>2</sub> emissions to a standard which allows a banded system to be set.

2.5 Many respondents commented that specific types of van are purchased for a practical business need. Factors including van body type, weight and payload are therefore important. Unintended consequences of reforming van VED were noted including: an increase in overloading; additional journeys in smaller vans resulting in higher overall CO<sub>2</sub> emissions; and incentives to purchase older euro 4 and 5 vans, some of which qualify for an ongoing early-adopter discount.

2.6 The need to reflect air quality pollutants, particularly NO<sub>x</sub> and particulates, in any reformed van VED system was highlighted by several respondents given their impact on human health in urban areas. However, it was also recognised that it is currently difficult to measure NO<sub>x</sub> with a significant degree of accuracy in laboratory tests. Some respondents also cautioned against adding additional complexity and several noted the challenging Real Driving Emissions Step 2 (RDE2) standards for NO<sub>x</sub> which become mandatory for all new vehicles from January 2022, creating difficulties in comparing different models.

2.7 One respondent raised the issue of the hypothecation of VED revenues to the National Roads Fund in England from 2020. It was noted that introducing an environmental element to the van VED system could create some uncertainty around revenues in the longer term, particularly as the uptake of zero emission vans increases.

## Van VED structure

- 2.8 The consultation document asked a number of questions relating to the structure of any reformed van VED system, including the differential between first year and standard rates of VED, and the rates for vans with lower emissions. It also set out two potential options for van VED band thresholds (as set out in tables 3.A and 3.B of the consultation document).
- 2.9 A number of respondents noted that the distinction between first year and standard rates does not provide a significant incentive to purchase an ultra low emission van, given these models currently attract higher list prices compared to diesel or petrol alternatives. Price was identified as the main decision factor for purchasing decisions. It was therefore suggested VED should be paid based on CO<sub>2</sub> beyond the first year to provide a stronger on-going incentive.
- 2.10 The majority of respondents agreed that any reformed van VED system should have a distinction in rates between models which are zero emission and those which emit some CO<sub>2</sub>. A small number noted that – given the limited number of fully zero emission models currently on the market – both ultra low and zero emission vans should be captured in one single VED band with equal incentives offered.
- 2.11 Regarding the options for CO<sub>2</sub> banding set out in the consultation, a range of views were provided. Primarily, respondents highlighted that it would not be appropriate for the CO<sub>2</sub> bands used in the car VED system to be applied to new vans as this may penalise fleet operators and businesses who need to purchase larger vans as a business tool. These vans generally emit higher levels of CO<sub>2</sub>.
- 2.12 The most common alternative suggested involved a system incorporating the weight and/or body type of the van. Respondents highlighted that this approach could recognise the distinctive segments within the van market. Several options, including a weight-based approach based on common industry classifications or EU van regulations were suggested. However, respondents noted the need to also maintain the simplicity and efficiency of the current system.
- 2.13 In response to the question regarding the proposed rates, one respondent noted that stronger disincentives to buy conventionally fuelled vans are required.
- 2.14 There was support for an ongoing discount for alternatively fuelled vans, including hybrids, those powered by LPG, and hydrogen, beyond the first year. Several respondents noted that fleet operators make purchasing decisions based upon ‘total cost of ownership’ models suggesting on-going discounts are important. Several respondents felt that the discount should be larger than the £10 offered for alternatively fuelled cars.
- 2.15 The need to design a van VED system which is appropriate for future improvements in technology was highlighted, particularly with EU wide CO<sub>2</sub> targets and the increasing number of ultra low and zero emission models becoming available over the medium term.

## Implementation date

- 2.16 The consultation asked respondents when the government should look to bring any reformed van VED system into effect.
- 2.17 Many respondents highlighted the interaction with the Worldwide Harmonised Light vehicles Test Procedure (WLTP), the new laboratory test procedure which aims to reduce the gap between real world and laboratory CO<sub>2</sub> emissions figures. WLTP is not mandatory for new registrations of vans until September 2019.
- 2.18 Respondents noted that implementing changes for April 2021, rather than April 2020, may avoid consumer confusion associated with some end-of-series vans paying tax based on the current CO<sub>2</sub> testing regime, known as the New European Driving Cycle (NEDC), and other models paying tax based on WLTP.
- 2.19 On the other hand, some respondents underlined the need to implement any changes as quickly as possible, particularly due to air quality concerns. Respondents noted the older average age of the van fleet, compared to cars, meaning recent improvements in CO<sub>2</sub> emissions and fuel efficiency are less likely to be reflected in the total van fleet.

## Van Benefit Charge and Van Fuel Benefit Charge

- 2.20 While the consultation document did not propose options for reforming van benefit charge and van fuel benefit charge for company vans, the final question asked whether there is scope to reform these taxes by introducing a link to CO<sub>2</sub>.
- 2.21 The majority of respondents believed it was logical to introduce an environmental element to these taxes, but highlighted that this would require a full consultation. Some respondents stressed that individuals should not be penalised if businesses require larger vans, particularly if employees have little choice in the company van provided. Further, a number of respondents noted that the total company van population is small as vans are much less likely to be utilised for private benefit.
- 2.22 Zero emission vans currently pay a percentage (40% for 2018-19) of the van benefit charge. A number of respondents noted that these reductions could be extended beyond 2022.

## Other issues raised

- 2.23 Several other issues were raised by respondents including:
- progress regarding the licence derogation for alternatively fuelled vehicles which exceed the 3,500kg maximum gross vehicle weight for light goods vehicles. Following the publication of the van VED consultation, the EU has approved the licence derogation and secondary legislation has been implemented by the Department for Transport. The Driving and Vehicle Standards Agency (DVSA) will publish guidance on what meaningful five hours training could be undertaken, as stipulated by the derogation and secondary legislation. In addition, the DVLA are to explore how to record the training has been completed in order to update driver records

- the importance of continuing other consumer incentives, such as the plug-in van grant
- the on-going discount available to early adopters of euro4/5 vans which are liable to pay a flat rate of £140, compared newer vans which pay £250 per year

# Chapter 3

## Government response

- 3.1 This chapter sets out the government's response to the consultation and its next steps in reforming the van VED system.
- 3.2 The key decisions that the government has taken are to:
- further develop its understanding of the impacts of WLTP on CO<sub>2</sub> emissions for vans, ahead of announcing the new rates and bands, for introduction from April 2021
  - ensure the new system takes into account the weight of the van by introducing a 2-category approach
  - provide ongoing incentives, beyond the first-year, for new zero emission, ultra low emission and other alternatively fuelled vans from April 2021

### Transitioning to WLTP

- 3.3 **The government is minded to announce new bands and rates for introduction from April 2021**, once the impacts of the current transition to the new CO<sub>2</sub> testing regime, known as WLTP, can be fully determined. This timeline for introducing the new system will give van manufacturers time to reflect the new values in all new vans, and allow the government to fully assess the impact of WLTP on the van market.

### An environmental signal combining CO<sub>2</sub> and van weight

- 3.4 The government welcomes respondents' support for introducing a CO<sub>2</sub> based VED system for new vans. However, the government recognises that van drivers should not be penalised for using an essential business tool. **In response, the government will introduce a 2-category approach, graduated by CO<sub>2</sub> when the van is first registered, followed by a standard rate from April 2021.** An indication of how this system could work is outlined in Table 3.A.
- 3.5 The government is committed to delivering on its climate change and air quality targets. Providing an on-going VED discount beyond the first year is an important part of meeting the ambition for 40% of new vans to be ultra low emission by 2030. **Therefore, the government will introduce a £0 standard rate for zero emission vans and an ongoing discount for ultra low emission and other alternatively fuelled vans.** In this context, the government will also maintain a differential between zero emission vans and those which emit some CO<sub>2</sub>.

- 3.6 This approach allows for the introduction of a strong environmental signal for new vans, while ensuring larger vans are not penalised, as these models generally emit higher levels of CO<sub>2</sub>. However, the government is also mindful of not introducing unnecessary complexity into the tax system and will ensure the proposal remains straightforward for taxpayers to understand. The government believes that introducing two categories balances these two objectives.
- 3.7 Table 3.A provides an indication of how a 2-category approach could work, with the rates aligned with the current first year rates for cars. Given larger vans generally emit higher CO<sub>2</sub> emissions, smaller rate increases between bands have been proposed, following feedback from respondents. However, the exact weight categories, CO<sub>2</sub> banding and rates will be announced ahead of introduction in April 2021, once the impact of WLTP has been fully assessed. As set out in the consultation document, these reforms will be fiscally neutral.

3.8 The table below provides an indication of how a 2-category approach could be implemented. The exact weight categories, banding and rates will be set out by the government ahead of April 2021.

**Table 3.A: Indicative 2-category approach**

Weight category <sup>1</sup>	CO <sub>2</sub> emissions <sup>2</sup>	Proposed first year rate <sup>3</sup>	Proposed standard rate <sup>3</sup>
A – small/medium sized vans	0	£0	£0
	1-50	£10	£125
	51-75	£100	£265
	76-90	£150	£265
	91-100	£190	£265
	101-110	£230	£265
	111-130	£270	£265
	131-150	£310	£265
	151-170	£500	£265
	171-190	£1000	£265
	191-225	£1500	£265
Over 225	£2000	£265	
B – large vans	0	£0	£0
	1-50	£10	£125
	51-75	£100	£265
	76-100	£150	£265
	101-130	£190	£265
	131-160	£270	£265
	161-190	£310	£265
	191-220	£350	£265
	221-255	£390	£265
	>255	£500	£265

<sup>1</sup> Exact weights for each category will be set out by the government ahead of implementation from April 2021.

<sup>2</sup> The bands outlined are indicative only and will depend on the impact of WLTP on the van market. However, as set out in this response document, the government will differentiate between zero emission vans and those which emit some CO<sub>2</sub>.

<sup>3</sup> These rates are indicative only. The final rates will depend upon a number of factors (e.g. RPI) and will be set out by the government ahead of implementation from April 2021.

# Annex A

## List of respondents

A.1 There were 18 responses from organisations and two individual responses. The organisations who responded were as follows:

Association for Consultancy and Engineering

Autogas

British Heart Foundation

British Vehicle Rental and Leasing Association

DPD

Enterprise Holdings

Ford Motor Company

Freight Transport Association

IAM Roadsmart

Islington Council

LEVC

National Franchised Dealers Association

Nissan

Royal Mail

The Society of Motor Manufacturers and Traders

Transport for London

Vauxhall Motors Limited



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