Tax briefing note
Fuel duty

June 2025

What is it?

Fuel duty is an excise duty on hydrocarbon oils, biofuels and road fuel gases such as liquid petroleum gas.

Petrol duty was introduced in 1908 at 3d (old pence, equivalent to 1.3 new pence) per gallon. Between 1978 and 1980 diesel was charged a higher rate than leaded petrol, and then again between 1982 and 1994 it attracted a higher rate than unleaded. After 1994 the diesel and unleaded rates were aligned. Between 1982 and 2000 a lower rate (by as much as 18 per cent) applied to diesel than to leaded petrol. In 1988 the rate for unleaded was introduced at lower level than leaded petrol, to encourage motorists to switch. By 2000, the leaded rate was withdrawn when its sale was banned. Unleaded and diesel rates were aligned in 2001 and have remained so ever since.

In December 2008, fuel duty rose from 50.35p to 52.35p a litre. In April 2009, it rose again to 54.19p. In September it was increased yet again to 56.19p and then to 57.19p in April 2010. After the election, the coalition government increased it once more to 58.19p in October and then 58.95p in January 2011. In April 2011 it was cut to 57.95p and remained at this level for 11 years. In March 2022, there was a temporary reduction of 5 pence to 52.95p. This was due to expire in March 2023 but its expiry has been postponed at successive budgets since.[1]

What's the problem with it?

It's far too high and it's economically damaging. There is some justification for fuel duty in principle. The degradation of local air quality and the contribution to climate change are both reasonable arguments for some level of particular tax on motoring fuel and all fuel, respectively. The problem is that these arguments only support a level of fuel duty much lower than the current rate.

Official modelling assumptions for traded carbon values for 2025 in a 'net zero strategy aligned scenario' are £63 per tonne of CO2 emissions (in 2024 prices).[2] Applying this price to US government statistics for how much CO2 emissions are produced from a litre of petrol produces a figure of 16.1p when adjusted to from 2024 to 2025 prices.[3] In other words, that's the CO2 cost of a litre of petrol.

Attributing local and national road spending (less vehicle excise duty receipts) to fuel duty could arguably add another 18 pence per litre. This 34p total should serve as a maximum, however, because the impact on local air quality and congestion is very weakly correlated with fuel combustion. It's unfair for drivers who use quiet roads in sparsely populated areas to pay the same penalty for congestion and air quality as drivers on busy roads in populated areas.[4] Road pricing (including congestion charges) better deals with congestion while local emissions regulations (such as low emissions zones) are much less blunt tools than a national (or even local) fuel duty.

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[1] HM Treasury, Spring Statement 2022: Fuel Duty Factsheet, 23 March 2022, www.gov.uk/government/publications/temporary-cut-to-fuel-duty/spring-statement-2022-fuel-duty-factsheet (accessed 6 April 2025).

[2] Department for Energy Security & Net Zero, Traded carbon values used for modelling purposes, 2024, 17 December 2024, www.gov.uk/government/publications/traded-carbon-values-used-for-modelling-purposes-2024/traded-carbon-values-used-for-modelling-purposes-2024 (accessed 6 April 2025).

[3] US Energy Information Administration, Carbon Dioxide Emissions Coefficients, 18 September 2024, www.eia.gov/environment/emissions/co2_vol_mass.php (accessed 6 April 2025).

[4] See Meakin in Booth et al, Taxation, Government Spending & Economic Growth, IEA, 2016.

Receipts from other charges should also be deducted from the spending allocation to fuel duty. The UK has the ninth highest fuel duty on petrol and the joint highest fuel duty on diesel compared with EU members states.[5]

In addition to the economic damage all taxes inflict on the economy, fuel duty above the 34p a litre level indicated above has two specific problems. First, it distorts economic patterns of consumption and production. Secondly, it prevents workers from accessing potential jobs. This restricts economies of scale, reduces competitiveness and hinders industrial specialisation, resulting in lower income levels.

What should be done?

1. Make the temporary rate cut of 5p a litre permanent.
2. Guarantee no rate rises until inflation brings the rate down to 34p (in 2025-26 prices).

[5] TaxPayers' Alliance, Briefing – Fuel duty in Europe 2024, October 2024.