

Tax briefing note

Vehicle excise duty

June 2025

What is it?

Vehicle excise duty (VED) is a levy paid to drive or park vehicles on public roads. A locomotive duty was introduced in 1889. VED was introduced in 1921 and the revenues were initially hypothecated to road spending, prompting the duty to be known as 'road tax'. This link was broken in 1937, however.

Three groups of charges apply, based on the date of registration of the vehicle: on or after 1 April 2017; before 1 March 2001; and between those dates.

VED on cars registered since April 2017 has an initial one-off rate in the first year based on bands of CO₂ emissions ranging in 2025-26 from £10 for zero-emissions cars to £5,490 above 255 g/km. There is a flat rate of £195 in subsequent years, except for cars with a list price over £40,000 where a £425 supplement applies in the second to sixth years. VED rates have increased with inflation since 2010.

Cars registered before April 2017 are attributed to one of 13 bands (ranging from £20 to £760 in 2025-26) based on CO₂ emissions unless they were registered before March 2001, in which case only two rates apply, based on whether the engine size exceeds 1,549cc (£220 or £360 in 2025-26).

Four bands apply to motorcycles and two to tricycles, based on engine size. Light goods vehicles pay a single rate. Heavy goods vehicles pay VED and HGV road user levy based on the weight, number of axles and suspension type. The first-year rate on diesel cars registered from April 2018 will be calculated as if the car were in the VED band above, except those certified as next-generation clean diesels.

VED was extended to electric cars, vans and motorcycles from April 2025.

What's the problem with it?

Taxing vehicle ownership is arbitrary and the current system is needlessly complex. The revenue raised would be less economically damaging if taken from overall consumption through VAT, or from income through income tax. Concerns about emissions, meanwhile, are already addressed through fuel duty. Congestion has almost no link with vehicle ownership because it is highly specific to certain times and locations. Congestion charges and other road-pricing mechanisms are much better designed to address congestion.

VED discourages vehicle ownership, which affects low income households more, with worrying implications for employment, particularly in areas which cannot sustain frequent and dense public transport networks.¹

What should be done?

1. Freeze VED immediately (but link the HGV road user levy to road use costs).
2. Scrap the recurring VED charges leaving only first-year rates.
3. Abolish VED entirely as soon as possible (but retain HGV road user levy).

¹ Wellings, R., Time To Excise Fuel Duty?, Institute of Economic Affairs, 2012.