

Vehicle Excise Duty

The King Review found that that a typical driver can reduce their CO₂ emissions by 25 per cent by choosing the most efficient vehicle in their preferred class. In addition, the Review concludes that a longer-term target of reducing average new car CO₂ emissions to 100g/km by 2020 is achievable. In order to support this target, and further strengthen the environmental incentive to develop and purchase fuel-efficient cars, Budget 2008 announces reform of the Vehicle Excise Duty (VED) structure. From 2009, VED will be restructured so that people gain financially by choosing the greenest cars. From 2010, there will be a new higher first year rate to influence purchasing choices.

Specific changes:

- six new VED bands from 2009-10 – including a new top band (band M) for most polluting cars that emit more than 255g CO₂/km;
- reducing the standard rate, in 2009-10, for all new and existing cars that emit 150g of CO₂/km or less; and increasing the rate on the most polluting cars to £425;
- from 2010-11, extending the zero rate of VED, during first year of ownership, to all new cars that emit 130g CO₂/km or less;
- holding the first year rate for all new cars that emit between 131 to 160g CO₂/km equal to the standard rate in 2010-11;
- for the most polluting cars a first year rate of £950 in 2010-11;

As a result of these changes, the majority of motorists are better or no worse off in 2009.

Fuel Duty Rates

The Government's policy is that fuel duty rates should rise each year at least in line with inflation as the UK seeks to reduce polluting emissions and fund public services. Budget 2008 therefore confirms that main road fuel duty rates will rise by 1.84 pence per litre on 1 April 2009, and announces that rates will then also increase by 0.5 pence per litre above indexation on 1 April 2010.

Budget 2008 also announces that the planned fuel duty increase of 2 pence per litre in April 2008 will now take place on 1 October 2008. The Government can also confirm that rebated oils duty increases will also be deferred until 1 October 2008, when they will rise in proportion to main road fuel duties. These rates will also rise by the same proportion as main road fuel duties in the subsequent two years.