A step in the right direction but a black hole for PHEV taxation

Autumn Budget 2025 Response

1. Pay per mile is the right long-term direction, but giving another tax break to PHEVs is unjustifiable

In the 2025 Budget, the Chancellor announced a new system of pay-per-mile tax on electric cars, described as e-VED. Under the new system, electric vehicles (BEVs) will be subject to a new charge of 3p per mile, while plug-in hybrids (PHEVs) will be charged just 1.5p per mile, and cars running fully on fossil fuels like petrol and diesel cars will be exempt from the scheme.

1.1 The government should rethink lower rates for polluting plug-in hybrids in pay per mile

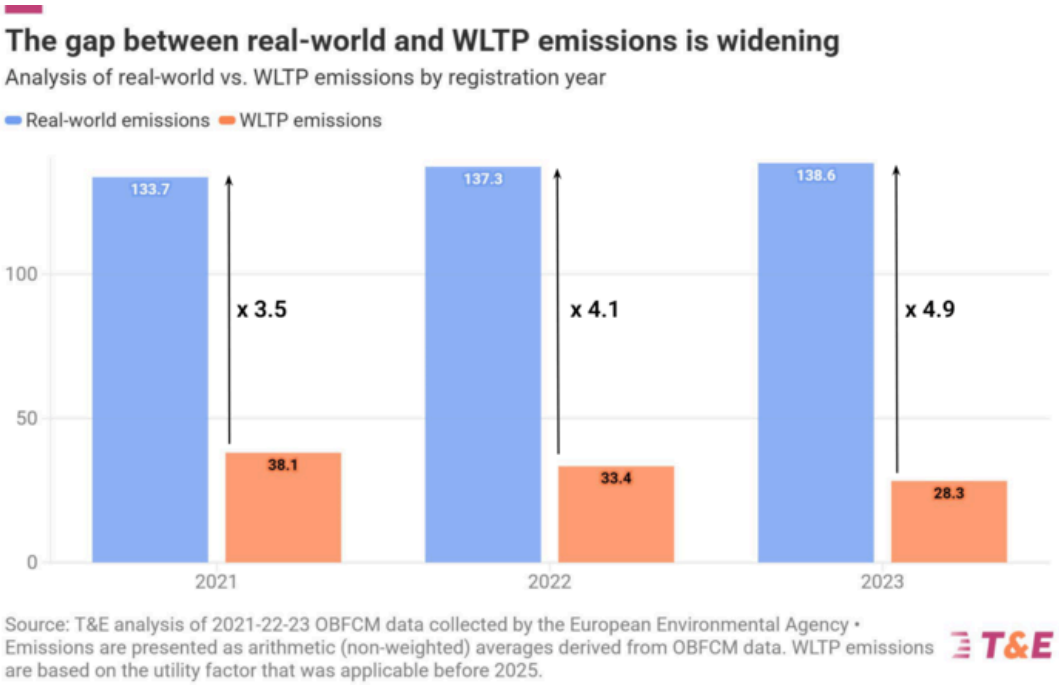
While moving towards a pay-per-mile system is the right long-term direction, applying the highest rate to BEVs, and giving a half rate to PHEVs, sends the wrong message to consumers and industry.

How and when will e-VED be paid?

According to Government statements, the amount motorists will pay in e-VED over the next year is decided at the start of the year - before a motorist drives the miles they'll be paying for. At the same time as they pay their VED, motorists will estimate their mileage for the year ahead and then have the option to pay the eVED tax for these miles in full at the start of the year, or to spread their payment across the year.

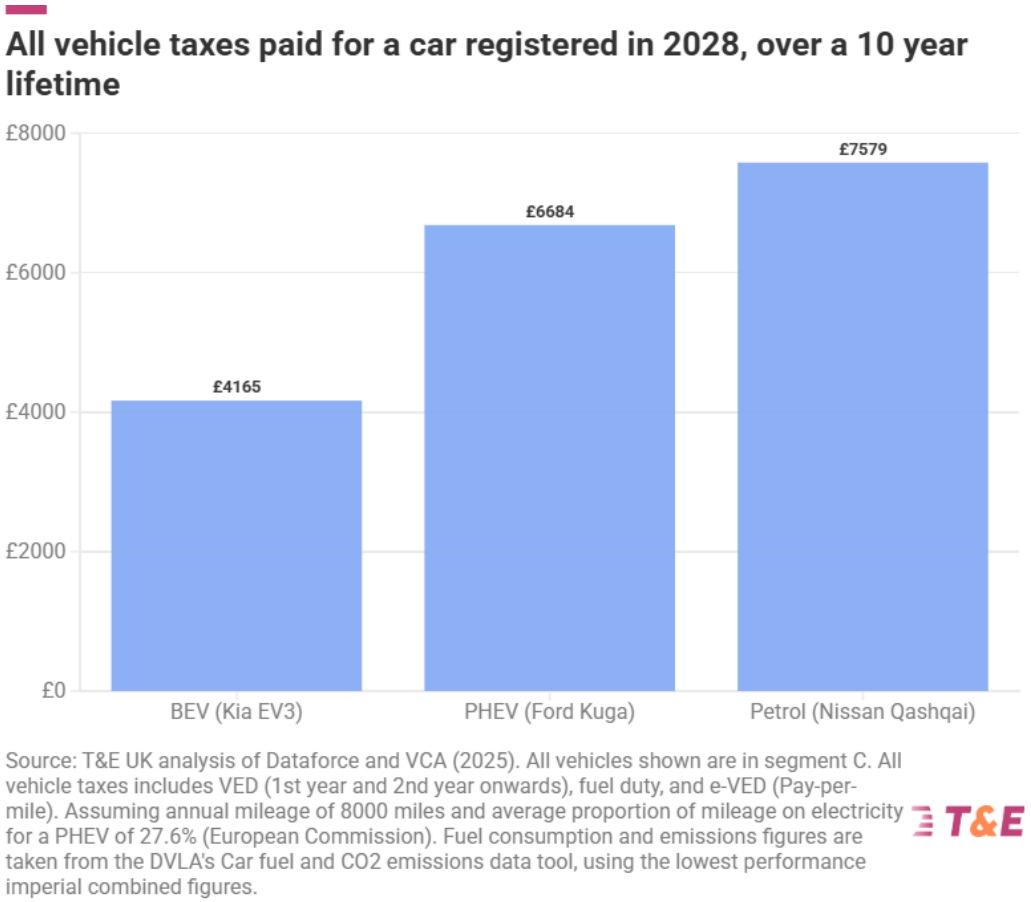
At the end of the year, the estimated mileage will be checked against a user-supplied reading of actual mileage for the year. For motorists who have underestimated their mileage, DVLA intends to provide a facility to make a single balancing payment or to adjust payments in the following year to spread the liability across a longer time period. For motorists who have overestimated their mileage, DVLA have stated that they intend to provide a credit which can be carried forward to the following year.

T&E analysis has shown that PHEVs emit far more CO2 than manufacturers claim. Manufacturers claim that PHEVs are supposed to save on emissions and fuel by switching between a battery, which can be plugged in and recharged, and a petrol or diesel engine and regulations used to calculate fuel use and CO2 emissions assume a very high share of electric mileage. But in the real world, CO2 emissions from these cars are almost five times what official tests suggest. This has grown from 3.5 times just 2 years ago. This is both a loophole for carmakers to more easily comply with the ZEV mandate and misleading for consumers, who find themselves paying an additional £650 a year on average compared to running a battery electric vehicle, as these cars often still consume fuel even when supposedly driving in 'electric' mode.



But despite PHEVs' higher emissions, under the new pay-per-mile system, genuinely zero-emission vehicles will pay double the pay-per-mile tax that PHEVs will. The government's rationale for this is that PHEVs will still pay fuel duty on the miles that they drive on petrol or diesel. When taking into account all taxes drivers will pay over a 10 year period for a car bought in 2028, T&E UK analysis of VCA and Dataforce data finds that a popular PHEV such as the Ford Kuga and petrol car such as the Nissan Qashqai will pay £2519 and £3414 more respectively in overall taxes than a popular BEV like the Kia EV3, because of the higher amount the former vehicles will pay in fuel duty.[1]

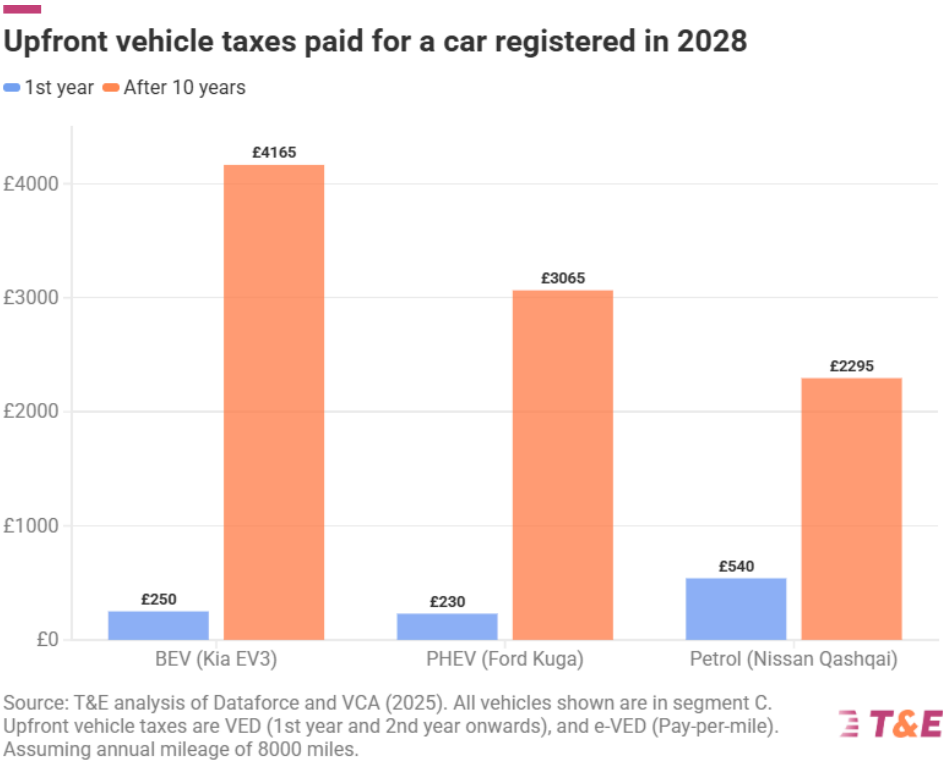
[1] Assuming annual mileage of 8000 miles and average proportion of mileage on electricity for a PHEV of 27.6% (European Commission). Fuel consumption and emissions figures are taken from the Vehicle Certification Agency's Car fuel and CO2 emissions data tool, using the lowest performance imperial combined figures.



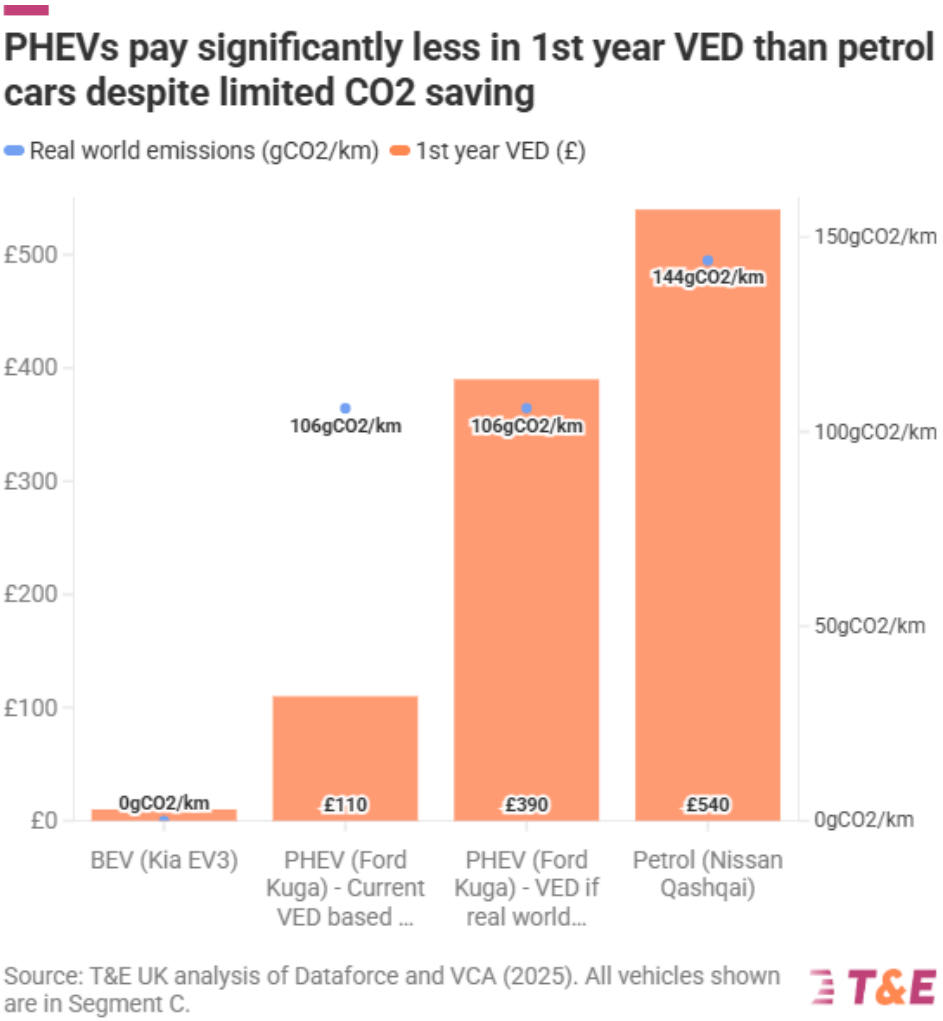
Source: T&E UK analysis of Dataforce and VCA (2025). All vehicles shown are in segment C. All vehicle taxes includes VED (1st year and 2nd year onwards), fuel duty, and e-VED (Pay-per-mile). Assuming annual mileage of 8000 miles and average proportion of mileage on electricity for a PHEV of 27.6% (European Commission). Fuel consumption and emissions figures are taken from the DVLA's Car fuel and CO2 emissions data tool, using the lowest performance imperial combined figures.

However, most consumers do not behave like fleets and do not consider the total cost of ownership of the vehicle, such as the cost and tax burden of the fuel used to power the vehicle. While drivers can choose to spread PPM payments in installments throughout the year, they have to administer the tax upfront at the start of the year by estimating their mileage, which will determine how much they pay in PPM for the year. This makes the tax different to fuel duty, as the upfront cost will be considered at the start of the year by drivers. The upfront tax burden, particularly in the first year is very important in guiding purchase decisions for consumers.

Under the proposed system when consumers go to purchase a new vehicle they will see the higher cost of BEVs in tax in the first year (VED and PPM) compared to PHEVs. T&E analysis of VCA and Dataforce data finds that the first year upfront tax burden for a popular BEV (such as the Kia EV3) would be £250, higher than the £230 as for a comparable PHEV such as a Ford Kuga. And over a 10 year life cycle, this results in a situation where the BEV Kia EV3 will pay £1100 more in taxes administered upfront annually (VED and pay per mile) than the PHEV Ford Kuga. While the Kia is zero pollution at the tailpipe, the Ford Kuga emits 106gCO2/km - only 38g less than a popular petrol car such as the Nissan Qashqai.



The impact of the lower PPM rate is compounded as PHEVs are already undertaxed in first year Vehicle Excise Duty compared to petrol vehicles. First year VED rates are currently based on CO2 emissions, with cars that emit more CO2 being charged a higher rate. However the rates used for PHEVs are based on their test emissions, when in the real world, the CO2 emitted by PHEVs is estimated to be 5 times higher than this. Using these real world emission figures, T&E analysis of VCA and Dataforce data finds that a popular PHEV (eg Ford Kuga) generates almost as much CO2 as a popular petrol car (eg Nissan Qashqai). The petrol Qashqai emits 144gCO2/km, compared to the Kuga's 106gCO2/km - a difference of only 25%. Yet the Nissan Qashqai pays almost four times more in first year VED, while the Kuga gets a generous discount. If the Kuga was fairly taxed based on its real world emissions it would pay £390 in first year VED, but currently it only pays £110. This is a clear tax loophole for PHEVs based on misleading and inaccurate information about emissions that doesn't stand up in the real world.



If VED was reformed to reflect the real world emissions of PHEVs, it would close the gap in first year taxation between BEVs and PHEVs. In the case of the BEV Kia and PHEV Kuga, the Kuga would pay £510 in 1st year taxes (VED and PPM) compared to £250 for the Kia. This would provide the right signal that BEV technology is the best choice for consumers.

To ensure that taxation remains fair based on the environmental impact of the vehicle throughout the transition, the government should:

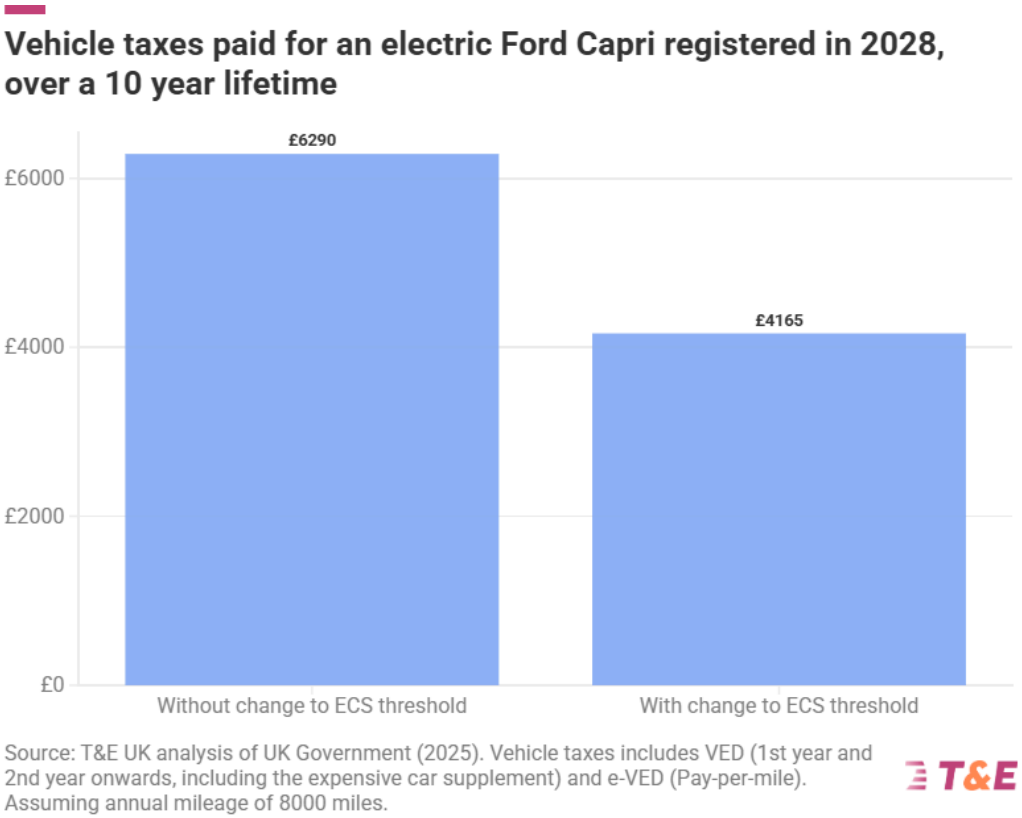
- **Increase e-VED rates for PHEVs** ensuring that pay-per-mile taxation reflects the environmental impact of the vehicle. Since BEVs deliver the greatest emissions reductions both for CO2 and pollutant emissions, they should always receive the lowest rates.
- **Update first year VED to reflect the real world emissions of PHEVs**, closing the current loophole which allows PHEVs to be undertaxed in first year VED. Higher first year VED prices for these more polluting cars will help to incentivise buyers to buy electric instead.
- **Increase VED on petrol and diesel cars**, especially those with high CO2 emissions, to maintain the tax differential between ICE and electric cars. In 2024 T&E analysis found

that the UK ranked 24th out of 31st European countries for its tax differential between small BEV cars and petrol SUVs - this must be improved.

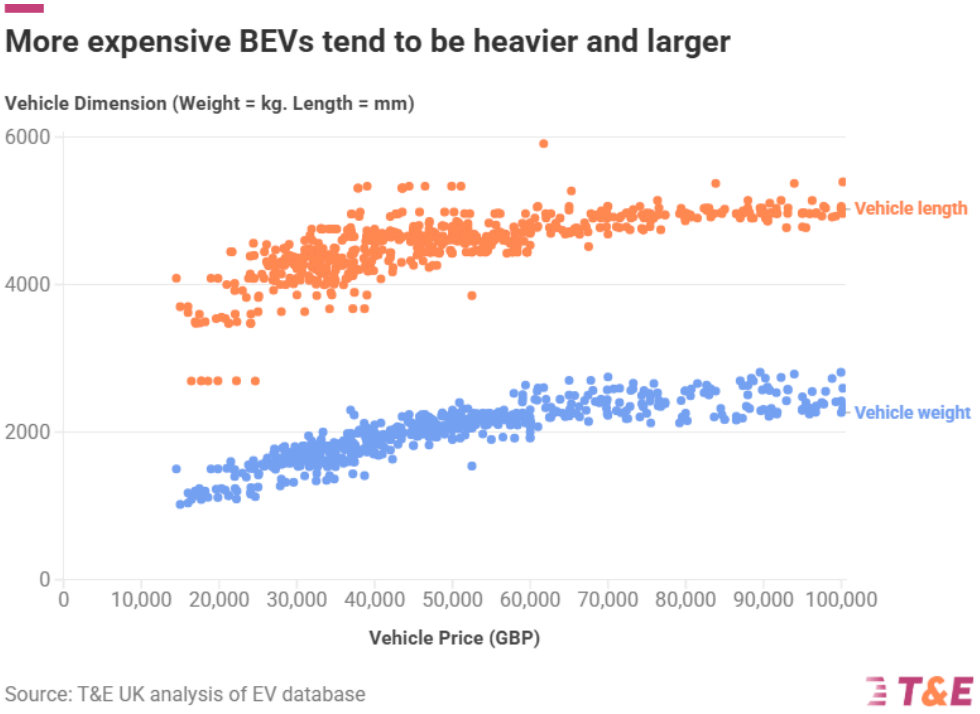
2. Safeguards must be put in place to ensure that the expensive car supplement doesn't encourage the sale of heavier vehicles

The Chancellor has chosen to uplift the threshold for paying the expensive car supplement on battery electric vehicles to £50,000, up from £40,000. The expensive car supplement is a £425 charge paid on VED every year from the 2nd year of ownership to the 6th year inclusive, for cars whose list price is above the threshold. This is paid on top of the standard 2nd year onwards VED charge of £195 a year, bringing the total VED paid after the 1st year to £620 for owners of these cars.

The policy change means that popular models such as the electric Ford Capri, which is likely to have a list price over the £40k threshold, will no longer be subject to the charge. This will dramatically reduce the amount owners of BEVs in the £40-£50k range will pay in direct taxes over their vehicle's lifetime. For example, T&E UK's analysis of the new government policy finds that a driver of an electric Ford Capri in 2028 will now pay only £4165 in direct taxes over a 10 year lifetime compared to £6290 if the policy change hadn't been enacted - around half the cost.



However it is vital to ensure such a policy change doesn't incentivise more UK car buyers (both corporate and private) to purchase larger vehicles. T&E analysis of the EV database shows that there is a positive correlation between the price of a BEV and both its length and weight. Heavier vehicles are far more damaging to our roads: analysis suggests that a 2 tonne vehicle can cause 16 times as much damage as a 1 tonne vehicle. Meanwhile, longer vehicles take up more space on the road and in parking spaces, negatively impacting other road users and communities.



3. Fuel duty rises are a positive step that is long overdue, but the government should do more to tackle the high costs of charging electric vehicles

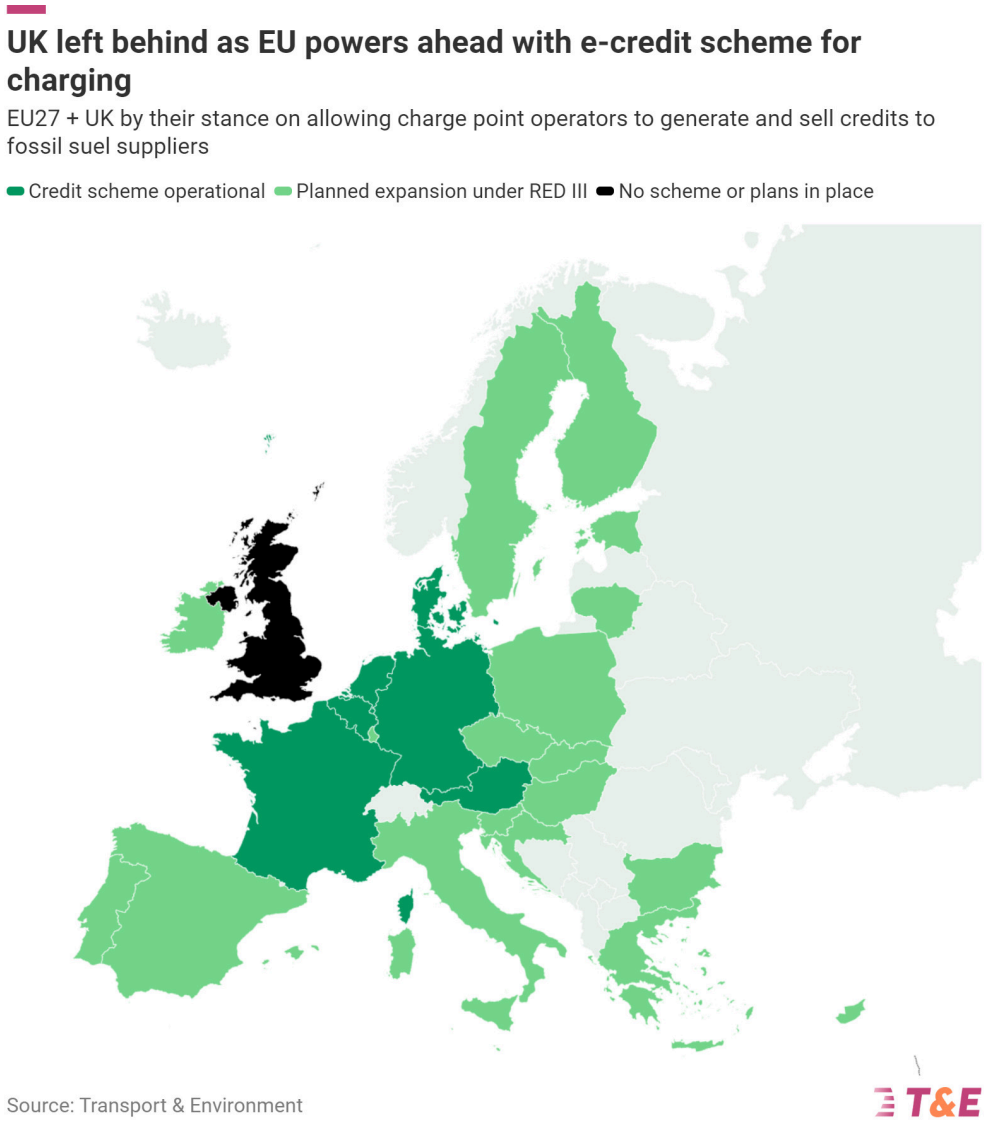
It is very welcome that the Chancellor has finally unfrozen fuel duty, and plans to reverse the 5p cut to increase fuel duty from September 2026. Fuel duty will undergo staggered increases from September 2026 to March 2027 until it reaches March 2022 levels (before the 5p cut was introduced).

This is long overdue. Fuel duty has been continually frozen since 2011, costing the government around £100 billion from 2011 to 2024 according to the House of Commons Library. Now is also the right time to reverse the 5p cut, given oil prices are back down to where they were before the Ukraine war, meaning that a subsidy is no longer needed to reduce pressure on price holds.

3.1 Public charging

This budget introduces 100% relief on business rates for Eligible Electric Vehicle Charging Points and Electric Vehicle only forecourts. This is worth £1bn according to Charge UK. This is a welcome move to reduce the price of public charging, which remains far too high. Currently it costs on average 25p/mile to charge at a public rapid charger, up from just 10p/mile in September 2021. This is significantly higher than the fuel cost of a petrol car which is just 15p/mile. This creates inequalities between those who can access off-peak home charging rates from as low as 7p/kWh, and those who have to use a public charger because they don't have access to off-street parking. It also reduces consumer confidence in EVs: according to a study by ERM the high cost of public charging is the number one most commonly cited barrier to buying a BEV. It is therefore welcome that the government intends to review electric car charging prices at public chargers. We suggest this consultation process should be complete by mid-2026 to ensure policies that reduce these cost barriers can be implemented as soon as possible.

However, the Chancellor can and should go further to cut the price of EV charging by including renewable energy used to charge EVs in the Renewable Transport Fuel Obligation (RTFO).This is already operational in six EU Member States and has been so successful it is set to be rolled out across the EU. Introducing this in the UK would help support the roll out of ultra-rapid charging in less profitable and underserved areas, at no additional cost to the Treasury. Charge UK estimates the inclusion of such an e-crediting scheme is worth between 2.5-8.5p/kWh.



3.2 Home charging

The Chancellor also announced the decision to remove 75% of the cost of the Renewables Obligation from household electricity bills, instead moving the cost into general taxation. T&E UK has previously called for the removal of policy costs from electricity to reduce EV charging costs. Carbon Brief estimates this change could cut the price of domestic electricity by around 4p per kilowatt hour (kWh). As well as reducing household bills, this will reduce the price of electric vehicle charging for those who are able to charge at home.

To continue to drive forward charging cost reductions the government should:

- **Complete the consultation on the cost of public charging by mid-2026** to ensure policies that reduce these cost barriers can be implemented as soon as possible.

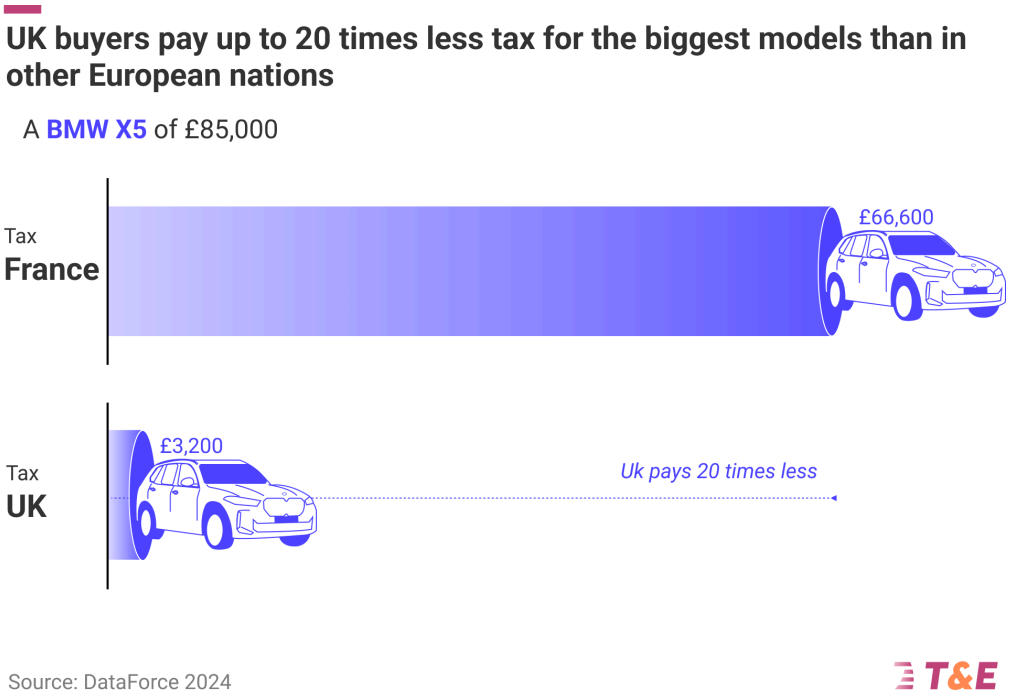
- **Include renewable energy used to charge EVs in the Renewable Transport Fuel Obligation (RTFO)**, to cut the price of charging.
- **Lower VAT from 20% to 5% on public charging,** with a requirement for charge point operators to pass these savings through to consumers in full. Charge UK suggest that this could save EV drivers without access to home charging £145 a year.

4. The government should ensure vehicles are taxed in line with their weight to pay for targeted support for low income households to access EVs

The announcement of an additional £1.3 billion of funding for the Electric Vehicle Grant is welcome to give longer term certainty on purchase support for EVs. Combined with the previous £650 million already committed, this takes the total funding available to almost 2 billion until 2029-2030. To ensure value for money and fairness, some of this funding should be targeted towards lower-income households, to ensure no one is excluded from the EV transition and that we make effective use of public funds. At present the Electric Vehicle Grant is not optimised to support those on low incomes.

One way to do this would be for the government to introduce a social leasing scheme. Social leasing offers discounted leases for electric vehicles for those on low-incomes. Such a scheme was introduced in France in 2024 and was a major success, receiving 90,000 applications in just six weeks. The scheme offered EVs from just €100/month, increasing the affordability of EVs for those on low incomes. The programme was so successful it has continued, with the 2025 edition reaching 41,500 additional households so far.

The fairest way to pay for such support is by placing higher taxes on large, expensive SUVs, which are more polluting on average, cause more damage to our roads, and are more dangerous to pedestrians and cyclists in a collision. Currently the UK acts as a tax haven for these cars: T&E analysis shows that a UK buyer of a BMWX5 (a luxury large SUV) would pay 20 times less registration tax compared to a buyer in France. Now is the time for the government to act to close this tax loophole and fairly account for weight in vehicle taxation. A Large Vehicle Levy on cars over 1,600kg could raise nearly £2 billion per year, providing a fair and effective way to help households across the country make the switch to electric. This would apply a flat rate of £10 per kilogram to 1st year VED for every kg above 1,600 kg - with an additional 400kg allowance for BEVs - protecting typical family cars while ensuring larger vehicles pay their way.



To ensure a fair EV transition the government should:

- **Introduce a social leasing scheme** to make new EVs accessible to lower income households.
- **Introduce a Large Vehicle Levy** to raise £2 billion a year, ensuring tax fairness on UK roads.

5. Policy recommendations

The government should:

1. **Increase the pay per mile rate for plug-in hybrids** and ensure it reflects their real world emissions impact of vehicles.
2. **Tax PHEVs according to their real world emissions in VED,** closing the current loophole.
3. **Increase VED on petrol and diesel cars,** especially those with high CO2 emissions, to maintain the tax differential between ICE and electric cars.
4. **Complete the consultation on the cost of public charging by mid-2026** to ensure policies that reduce these cost barriers can be implemented as soon as possible.
5. **Include renewable energy used to charge EVs in the Renewable Transport Fuel Obligation (RTFO)**, to cut the price of charging.
6. **Lower VAT from 20% to 5% on public charging**, with a requirement for charge point operators to pass these savings through to consumers in full. This would bring taxes on public charging in line with private charging.

7. **Introduce a social leasing scheme** to make EVs more accessible to lower income households.
8. **Introduce a Large Vehicle Levy** to raise £2 billion a year, ensuring tax fairness on UK roads.

Further information

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About T&E UK

T&E UK is the UK office of Europe's leading advocate for clean transport and energy. Our vision for the coming years is to deliver a zero-emission transport and energy system that is affordable, circular, and has minimal impacts on our health and the environment while locking in growth and jobs for the UK.