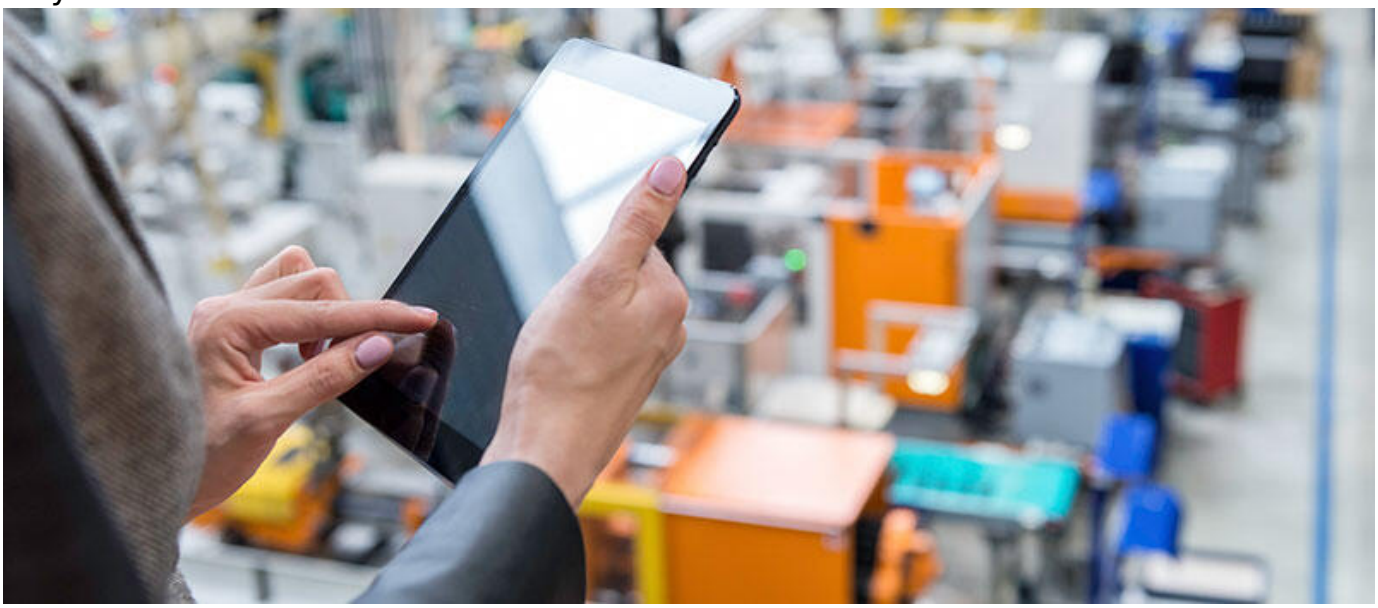
HM Treasury consultation: introduction of electric Vehicle Excise Duty

Indirect Tax

May 2026



22 April 2026

The ATT response to a HM Treasury consultation highlights concern with the proposed electric Vehicle Excise Duty and suggests an alternative approach to replacing declining fuel duty revenues.

The ATT responded to a HM Treasury consultation on the proposed new electric Vehicle Excise Duty (eVED). This follows the announcement in the 2025 Budget that a new mileage charge for electric vehicles (EVs) and plug-in hybrid electric vehicles (PHEVs) will be introduced from April 2028. Under the current proposal, EVs would be charged 3p per mile and PHEVs 1.5p per mile.

Need for a more sustainable replacement for fuel duty

While recognising the need for the government to consider alternatives to fuel duty as the UK moves towards phasing out the sale of new petrol and diesel vehicles in favour of EVs and PHEVs, we noted that the proposed measure is expected to raise £1.865 billion in 2030–31, compared with the more significant reduction in fuel duty revenue of £12 billion by the 2030s. As VAT is charged on the price of petrol and diesel inclusive of fuel duty, this further increases the lost revenue to the Exchequer to be covered by any replacement levy.

We recommended that the government carry out a broader reform, such as a mileage-based charge applying to all vehicle types, which could better support revenue stability and would ensure that reduced fuel duty revenues are sustainably replaced.

Impact on EV demand

We also highlighted our concern that applying eVED only to EVs and PHEVs risks it being perceived as an additional tax on EV drivers. This could reduce consumer confidence, reinforce negative perceptions around EV affordability, and ultimately slow EV uptake, undermining the government's net zero objectives.

We encouraged the government to consider evidence from other jurisdictions suggesting that EV-specific mileage charges can reduce demand. This includes Iceland, where initial reports indicated significant reductions in EV sales after the introduction of a kilometre-based fee in early 2024, with some sources suggesting a drop of up to 50% compared to the previous year. Iceland has since expanded the fee to all road vehicles from 2026. A similar pattern has been observed in New Zealand, where a 'Road User Charge' for EVs was introduced in April 2025. Early analysis suggests that sales declined following its introduction, even where broader incentives remained in place.

Need for improved EV infrastructure

Our response also suggested that introducing eVED before addressing challenges with charging infrastructure, particularly cost and accessibility for those without off-street parking, risks placing an unfair burden on some EV drivers.

Mileage driven outside the UK

The current proposal applies to total recorded mileage, irrespective of where driving takes place. Unlike fuel duty, which is paid on UK-purchased fuel, this approach may result in UK taxation of mileage driven abroad.

We suggested that this will be of particular concern in Northern Ireland, where drivers may cross the border on a regular basis. The government may wish to consider whether a mechanism for deducting verifiable overseas mileage, such as that introduced in Iceland, would be appropriate, particularly for drivers undertaking regular international travel.

Other factors

Overall, we drew attention to several practical and fairness concerns which need further consideration. These include the interaction with employment taxes, assumptions around PHEV usage, and the risk of double taxation or unfair outcomes when vehicles are sold or transferred.

We also noted that the proposed eVED introduces administrative complexity for motorists, fleet operators, leasing businesses and MOT centres, and that the government should consider whether the compliance burden is proportionate to the expected revenue.

The full ATT response is available here.

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