Vehicle Excise Duty: 40 year rolling exemption for classic vehicles

Who is likely to be affected?
Owners of vehicles built 40 or more years ago.

General description of the measure
The measure extends the exemption from Vehicle Excise Duty (VED) to vehicles constructed 40 or more years ago on an automatic rolling basis on 1 April each year.

Policy objective
The VED exemption is intended to support classic vehicle, which the Government considers are an important part of the nation’s historical heritage. According to research by the Historic Vehicle Research Institute and the Federation of British Historic Vehicles Clubs, in their publication *The British Historic Vehicle Movement: A £4 Billion Hobby*, the historic car industry employs about 28,000 people in the UK.

Background to the measure
Budget 2013 announced a measure to extend the scope of the VED exemption to classic vehicles by one additional year. From the 1 April 2014, vehicles manufactured in 1973 will be added to the exemption for this category. Budget 2014 announced the introduction of a rolling 40 year exemption of VED on classic vehicles. From the 1 April 2015, vehicles constructed 40 years ago will be added to the scope of the exemption.

Detailed proposal
Operative date
The measure will have effect for eligible vehicles presented for exemption from 1 April 2014 and each subsequent 1 April thereafter.

Current law
Section 1 and Schedule 1 of the Vehicle Excise and Registration Act establishes VED in respect of mechanically propelled vehicles and sets out the rates of duty on vehicles. Schedule 2 of the Act provides a rates exemption in respect of vehicles constructed before 1 January 1973, provided that such vehicles are not used commercially.

Proposed revisions
The exemption cut-off date in Schedule 2 of the Act will be changed to 1 January 1974 to apply from 1 April 2014 as announced at Budget 2013, and to 1 January 1975 to apply from 1 April 2015 as announced at Budget 2014. This will be legislated in Finance Bill 2014. The cut-off date will be rolled forward by one year on every 1 April in each subsequent Finance Bill.
Summary of impacts

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The figures for the Budget 2014 element form part of the motoring tax package set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.

Economic impact

The measure is not expected to have any significant economic impacts.

Impact on individuals and households

When it is introduced in 2014-15 this measure will have an advantageous impact for the owners of around 10,000 classic vehicles, who will benefit each year as they are currently paying VED but will not under the exemption. Every year thereafter, the number of classic vehicles affected will increase, as additional cohorts of vehicles are included in the exemption. It is estimated that an additional 10,000 classic vehicles will be affected in each year of the scorecard. Most of these vehicles are assumed to be cars or vans giving annual savings in 2014-15 of £145 or £230 depending on engine size.

Equalities impacts

There will be no significant impacts as a result of these changes.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on business and civil society organisations. There may be negligible one-off cost to classic vehicle motor trades associated with familiarisation with the new legislation.

Operational impact (£m) (HMRC or other)

A systems change cost of at least £40,000 will be met by the Driver and Vehicle Licensing Agency (DVLA) to revise the qualifying cut-off date for the exemption each year.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through the DVLA vehicle licensing data.

Further advice

If you have any questions about this change, please contact the DVLA on 0300 790 6802 (online: https://www.gov.uk/contact-the-dvla).