Key takeaways from the 2025 Autumn Budget

What the latest vehicle tax and incentive changes mean for fleets and motorists

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Summary

The UK automotive sector is at a pivotal crossroads, shaped by evolving government policies aimed at balancing fiscal needs with environmental ambitions. Recent announcements in the Autumn Budget signal significant shifts in Vehicle Excise Duty (VED), fuel duty, capital allowances and grant schemes. All of which will influence the decisions of businesses and consumers alike. This whitepaper unpacks these developments, offering insight into their implications for fleets, manufacturers and drivers as the country accelerates towards a greener transport future.

How will the new mileage levy affect your Electric Vehicle costs?

In April, the standard rate of Vehicle Excise Duty was equalised across petrol, diesel, hybrid and electric vehicles, marking an important step towards a level playing field. Building on this, the Chancellor introduced two notable changes in the Autumn Budget that will take effect over the coming years:

- A new per-mile levy of 3p for electric cars and 1.5p for plug-in hybrids from April 2028, aimed at offsetting the anticipated decline in fuel duty revenue, expected to halve by the early 2030s. Drivers will pre-report estimated mileage and pay accordingly, with reconciliations at year-end.
- An increase in the list price threshold for the Expensive Car Supplement from £40,000 to £50,000, but only for electric cars. The supplement adds £440 on top of the first five annual VED renewals, and exemptions for EVs were removed for new registrations from 1 April 2025.

Whilst these measures aim to sustain government revenue, they come at a time when electric vehicles (EVs) still often have a higher list price than conventional cars despite ongoing reductions. The Office for Budget Responsibility (OBR) forecasts the potential loss of up to 310,000 EV registrations over the next five years due to these changes, posing challenges to manufacturers striving to meet stricter emissions targets. Vans are exempt from the mileage levy, recognising their distinct commercial use case.

For fleets, the impact is clear. Business Contract Hire vehicles average 14,400 miles annually; at 3p per mile, this adds £432 in running costs – a 50% increase if charged using standard home electricity rates. Yet, even with this added cost, petrol or diesel vehicles would need an exceptional 70mpg lifetime efficiency to financially match their electric equivalents, highlighting the continued economic advantage of EVs despite new levies.

How will Fuel Duty changes affect consumers and fleets?

Fuel duty, frozen since 2011 and temporarily cut by 5p per litre in 2022, will see the cut phased out between September 2026 and March 2027, though the freeze itself remains. The Chancellor highlights the latter will save a typical household around £40 per year.

Fuel prices have proved almost inflation-proof since the freeze was introduced, with petrol rising from 132p to 136p per litre and diesel from 139p to 145p over 15 years. The government plans to introduce measures encouraging retailers to adjust prices more responsively, helping consumers find cheaper fuel options.

For EV drivers, the energy cost story is more complex. Rising electricity prices have increased charging costs, but government reforms targeting wholesale energy pricing and a forthcoming review of public charging tariffs, alongside a £150 reduction in home energy bills next year, are positive steps. These measures are critical to sustaining the momentum in UK EV adoption.

What do changes in Capital Allowances mean for business investment?

The extension of 100% first-year capital allowances for zero-emission vehicles and charging infrastructure until 31 March 2027 provides a strong incentive for businesses to invest in green assets by reducing taxable profits.

Additionally, a new 40% first-year allowance for lessors on plant and machinery, including commercial vehicles, improves the attractiveness of leasing, though it falls short of the 100% rate sought by industry advocates.

Conversely, the main rate of capital allowance will drop from 18% to 14% from the 2026-27 financial year. This reduction affects vehicles emitting between 1-50g/km CO_2, bringing in additional complexities for what has been a turbulent time for plug-in vehicles. Combined with higher company car tax bands, increased CO_2 thresholds and the new mileage levy for those vehicles, these changes create a complex environment for fleet managers planning future investments.

Can grant extensions sustain market growth?

The Electric Car Grant, offering up to £3,750 towards new EVs, has been extended to March 2030. Although only 39 models qualify, it's encouraged other manufacturers to price match government support and helped make vehicles more affordable.

However, the Plug-in Van Grant remains confirmed only until March 2027, creating uncertainty in the electric van market, which currently accounts for just 9.1% of registrations, well below the mandated 16% target. Aligning VED for electric vans with diesel vans at £345 annually since April further complicates the business case for operators facing cost and operational challenges with electric commercial vehicles.

What does the delay in ECOS Taxation mean for drivers and fleets?

Plans to subject Employee Car Ownership Schemes (ECOS) to Benefit-in-Kind taxation were initially set for April 2026 but have now been postponed until April 2030, with a transitional arrangement extending to April 2031. ECOS allows employees affordable access to new cars through short-term, mileage-limited contracts, and currently fall outside the scope of Benefit-in-Kind tax because ownership is transferred to the driver.

This delay is likely welcomed by users and industry stakeholders, especially dealers and manufacturers who use ECOS to efficiently move new vehicles into used stock. The Society of Motor Manufacturers and Traders (SMMT) argued that introducing the tax changes earlier could have reduced new vehicle registrations by approximately 100,000 annually, many of which are zero and low-emission models.

Conclusion: what does this mean for the future of UK transport?

The UK government's recent fiscal measures reflect the careful balancing act between maintaining public revenues and fostering a sustainable transport sector. Whilst the introduction of mileage-based levies and adjustments to capital allowances show a pragmatic approach to declining fuel duty revenues, these policies also introduce new cost pressures that could slow EV adoption at a critical growth phase.

Delays in taxing ECOS and extensions of grants demonstrate responsiveness to market realities and stakeholder concerns. Meanwhile, reforms in energy pricing and charging infrastructure costs will be essential to support the transition to electric mobility.

For businesses, fleet operators, and consumers, navigating this evolving policy environment requires careful consideration of total cost of operation, operational needs and long-term sustainability goals. Continued dialogue between government, industry and users will be vital to ensure the UK's ambitious climate targets remain achievable without compromising economic vitality.

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