TAXATION (ENERGY AND VEHICLES) BILL

EXPLANATORY NOTES

What these notes do

These Explanatory Notes relate to the Taxation (Energy and Vehicles) Bill as brought from the House of Commons on 2 July 2026 (HL Bill 38).

- These Explanatory Notes have been prepared jointly by HM Revenue and Customs and HM Treasury in order to assist the reader in understanding the Bill. They do not form part of the Bill and have not been endorsed by Parliament.
- These Explanatory Notes explain what each part of the Bill will mean in practice; provide background information on the development of policy; and provide additional information on how the Bill will affect existing legislation in this area.
- These Explanatory Notes might best be read alongside the Bill. They are not, and are not intended to be, a comprehensive description of the Bill.

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Overview of the Bill/Act

1 This Bill increases the rate of the Electricity Generator Levy from 45 per cent to 55 per cent.

2 This Bill increases the approved rate for mileage allowance payments (AMAPs) and the simplified mileage rates for the self-employed for the tax year 2026-27 and subsequent years. The Government's policy is to increase the rate for 2026/27 from 45p to 55p for the first 10,000 miles. The approved rate for mileage allowance payments (AMAPs rate) is the amount which can be paid tax free to an employee as reimbursement for the employee's use of their private vehicle for business travel. The simplified mileage rates are fixed rate deductions available to individuals carrying on a trade as self-employed sole traders or in partnership with other individuals, and to individuals carrying on a property business.

3 This Bill provides for changes to certain rates of Vehicle Excise Duty (VED) by modifying Schedule 1 to the Vehicle Excise and Registration Act 1994 (VERA). Changes to the rates take effect in relation to vehicle licences taken out in the period beginning with 1 July 2026 and ending with 30 June 2027 for certain heavy goods vehicles used in the course of a trade.

Policy background

Clause 1: Increase in rate of Electricity Generator Levy

4 The change in Clause 1 will increase the rate at which generators pay when they are receiving exceptional revenues. The purpose is to support the Government's wider work to break the link between electricity and gas prices by encouraging older generators onto new fixed-price contracts.

Clause 2: Mileage amounts relating to Income Tax

5 The rates in the Bill relate to deductions from Income Tax for both employed and self-employed drivers, and owners of property businesses.

6 The AMAP rate in the Bill is the amount which an employer can reimburse their employee for business travel in their private vehicle without paying Income Tax. For cars or vans, this is being increased from 45p to 55p for the first 10,000 miles.

7 Where an employee is reimbursed below the AMAP rate, they are entitled to claim Mileage Allowance Relief (MAR) from HMRC. The increase in the AMAP rate to 55p has a consequential impact on the amount of relief that can be claimed.

8 For National Insurance, employers can disregard a certain amount of reimbursed relevant motoring expenditure from their employees Class 1 earnings. This is calculated with reference to mileage travelled and for cars and vans it is the rate that applies for the first 10,000 miles, set out in the Income Tax (Earnings and Pensions) Act 2003 (ITEPA), and for motorcycles and bicycles it is the respective AMAP rates set out in ITEPA.

9 Tax legislation also allows for individuals who are self-employed, in partnership with other individuals, and with a property business to use a set of simplified fixed rate deductions for expenditure on vehicles when calculating their taxable profits. The clause provides a higher fixed rate deduction for users of these simplified rates, allowing a deduction of 55p per mile for the first 10,000 miles of business journeys in a car or goods vehicle.

10 The mileage rate changes have effect for the tax year 2026-27 and subsequent tax years. The Government's policy is to increase the rate for 2026/27 and, beyond 2026/27, the Government has already committed to a review of these rates and will set this out at the Budget.

Clause 3: Goods vehicles: temporary VED rates

11 As announced on 20 May, the Government is providing temporary support to the heavy goods vehicles sector to reflect its disproportionate exposure to diesel costs and the importance of supply chains to help ensure cost pressures do not spread across the economy. The Bill sets a nominal £1 Vehicle Excise Duty rate for licences or renewals in the 12 months from 1 July 2026 to 30 June 2027 for certain heavy goods vehicles (this includes certain goods vehicles with a revenue weight exceeding 3,500 kgs) which are used in the course of trade.

Territorial extent and application

12 Clause 1 applies to receipts from electricity generation within the United Kingdom, the territorial sea of the United Kingdom, and the Renewable Energy Zone within the meaning of Part 2 of the Energy Act 2004.

13 Clauses 2 applies to receipts from Income Tax within the United Kingdom.

14 Clause 3 applies to receipts from Vehicle Excise Duty within the United Kingdom.

Commentary on provisions of Bill/Act

Clause 1: Increase in rate of Electricity Generator Levy

15 Subsection (1) provides for the rate of the Electricity Generator Levy to increase from 45% to 55%.

16 Subsection (2) provides that the increase will apply to receipts attributable to generators from 1 July 2026.

17 Subsection (3) explains that where a "qualifying period" straddles 1 July 2026 then time apportionment applies so that only "exceptional generation receipts" that are attributable to a time from that date are charged at the increased rate.

18 Subsection (4) sets out the detail of the time apportionment.

19 Subsections (5) and (6) provide that where payments of the levy are due under the quarterly payment provisions for Corporation Tax, then any increased liability resulting from the rate increase does not need to be included until the first payment due after the Bill has been passed. This means that late payment or repayment interest will be calculated by reference to that later date.

20 Subsection (7) makes consequential amendments to the quarterly instalment payment regulations, the meaning of which is set out in subsection (8).

Clause 2: Mileage amounts relating to Income Tax

21 Subsection 1(a) amends the table in subsection (2) of section 230 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) to increase the applicable rate per mile for a car or van for the first 10,000 miles from 45p to 55p.

22 Subsection 1(b) amends the table in subsection (2) of section 94F of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) to increase the rate used in calculating the appropriate mileage amount per mile for a car or goods vehicle for the first 10,000 miles from 45p to 55p.

23 Subsection 2 amends subsection (3) of section 94F of ITTOIA to amend the calculation of the appropriate mileage amount in cases where the total number of miles of relevant business journeys in the period is greater than 10,000, to reflect the increase in the rate per mile for the first 10,000 miles to 55p.

24 Subsection 3 provides that the amendments apply for the tax year 2026-27 and subsequent tax years.

Clause 3: Goods vehicles: temporary VED rates

25 Subsection 2 treats as amended paragraph 9 of Schedule 1 to VERA which sets out the rates for rigid goods vehicles exceeding 3,500kgs revenue weight. Specifically, it treats as amended paragraph 9(1) by substituting the VED rates temporarily to £1 for licences taken out in respect of goods vehicles falling within that sub-paragraph and which are used in the course of a trade, during the period beginning with 1 July 2026 and ending with 30 June 2027.

26 It also treats as amended paragraph 9(2)(b) in relation to any rigid goods vehicles which is an island goods vehicle with a revenue weight exceeding 3,500 kgs and which are used in the course of a trade by substituting the "basic goods rate" to £1 for licences taken out during the period beginning with 1 July 2026 and ending with 30 June 2027.

27 It also treats as amended paragraph 9(3) in relation to any rigid goods vehicle which is used in the course of a trade which has a revenue weight exceeding 44,000 kgs and is not an island goods vehicle by substituting "£1,703" with "£1".

28 Subsection 3 treats as amended paragraph 10 of Schedule 1 to VERA which sets out the rates for certain rigid goods vehicles exceeding 11,999 kgs. Specifically, it treats as amended paragraph 10(3) by substituting the VED rates temporarily to £1 for licences taken out in respect of goods vehicles falling within that sub-paragraph and which are used in the course of a trade, during the period beginning with 1 July 2026 and ending with 30 June 2027.

29 It also treats as amended paragraph 10(7) of Schedule 1 to VERA(which makes provision for VED rates for certain rigid goods vehicles which do not fall within paragraph 10(3)) in respect of goods vehicles which fall within that sub-paragraph, and which are used in the course of a trade by substituting "£654" with "£1".

30 Subsection 4 treats as amended paragraph 11 of Schedule 1 to VERA which sets out the rates for tractive units exceeding 3,500 kgs. Specifically, it treats as amended paragraph 11(1) by substituting the annual VED rates temporarily to £1 for licences taken out in respect of goods vehicles falling within that sub-paragraph and which are used in the course of a trade, during the period beginning with 1 July 2026 and ending with 30 June 2027.

31 It also treats as amended paragraph 11(2)(b) to substitute the "basic goods rate" to £1 for licences taken out during the period beginning with 1 July 2026 and ending with 30 June 2027 in respect of tractive units which are island goods vehicles and which are used in the course of a trade with a revenue weight exceeding 3,500 kgs.

32 It also treats as amended paragraph 11(3) by substituting "£1,703" to "£1" for goods vehicles which are tractive units that exceed 44,000 kgs which are used in the course of a trade, and is not an island goods vehicle, for licences taken out during the period beginning with 1 July 2026 and ending with 30 June 2027.

33 Subsection 5 treats as amended paragraph 11C (2) of Schedule 1 to VERA (rate for certain tractive units exceeding 41,000 kgs but not exceeding 44,000 kgs) in respect of goods vehicles to which that sub-paragraph applies and which are used in the course of trade by substituting "£10" with "£1".

34 Subsection 6 treats as amended section 3(2) of VERA to allow for a six-month licence to be issued below £50 to those vehicles eligible for the temporary VED rate.

35 Subsection 7 treats article 3(1)(b) of the Vehicle Licences (Duration of First Licences and Rate of Duty) Order 1986 (the 1986 Order) as amended. The 1986 Order provides for first vehicle licences to run from specified dates within a month, allowing licences to be issued for periods of 6 or 12 months together with an additional part-month beginning on the 10th, 17th or 24th of the month in which the licence first takes effect, with duty calculated accordingly. This subsection enables a 6-month licence to be issued at the appropriate rate (plus the applicable amount for the part-month period) in respect of first vehicle licences for vehicles falling within subsections (2) to (5).

Clause 4: Short title

36 This clause provides for the Bill to be known as "Taxation (Energy and Vehicles) Act 2026" upon Royal Assent.

Compatibility with the European Convention on Human Rights

37 The Government has considered the human rights implications arising from this Bill and its view is that all provisions within the Bill, including those with retrospective effect, are compatible with the rights protected by the European Convention on Human Rights (ECHR).

38 Clause 1 increases the rate of the Electricity Generator Levy. This engages Article 1 of Protocol 1 of the ECHR (A1P1).

39 The Government considers that it falls within the wide margin of appreciation enjoyed by states in the area of taxation. It is in the public interest to ensure that the Levy continues to achieve a fair and balanced allocation of the proceeds of electricity production during the current economic climate where generating companies are benefiting from the existence of a link between electricity and gas prices, regardless of whether gas is used in the production of that electricity.

40 At times of high gas prices, that price link produces a windfall to those companies who are able to greatly increase their revenue without a commensurate increase in their expenses. The Levy is only applied to a proportion of energy companies' receipts over a benchmark price and accordingly those companies affected by the rate increase will not be divested of all of their windfall profits and it is therefore the Government's view that the EGL rate increase is a justified and proportionate interference with A1P1.

41 Clauses 2 and 3 reduce the amounts of tax and duty that would otherwise have to be paid. This reduction pursues the legitimate aim of alleviating the impact of increased fuel costs. The Government considers that any interference with A1P1 is justified and proportionate.

42 A statement has been made, pursuant to section 19(1)(a) of the Human Rights Act 1998, by Rachel Reeves, Chancellor of the Exchequer at His Majesty's Treasury that, in her view, the Bill's provisions are compatible with the Convention rights.

European Union (Withdrawal) Act 2018 section 13C

43 The Government is of the view that the Bill as brought from the House of Commons does not contain provision which, if enacted, would affect trade between Northern Ireland and the rest of the United Kingdom. Accordingly, no statement under section 13C of the European Union (Withdrawal) Act 2018 has been made.

Related documents

44 The following documents are relevant to the Bill and can be read at the stated locations:

- Tax information and impact note for the increase in the rate of the EGL, available online here: https://www.gov.uk/government/publications/increase-in-the-rate-of-the-electricity-generator-levy/amended-rate-of-the-electricity-generator-levy-2026-to-2027

- Tax information and impact note for the increase in the generosity of mileage rates, available online here: https://www.gov.uk/government/publications/increase-to-approved-mileage-allowance-payments-amaps-and-self-employed-simplified-mileage-rates/increasing-mileage-rates

- Tax information and impact note for the temporary Vehicle Excise Duty rates for certain heavy goods vehicles, available online here: https://www.gov.uk/government/publications/12-month-vehicle-excise-duty-ved-holiday-for-heavy-goods-vehicles-hgvs/temporary-vehicle-excise-duty-rates-for-heavy-goods-vehicles

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