EXPLANATORY MEMORANDUM TO

THE EXCISE DUTIES (SURCHARGES OR REBATES) (HYDROCARBON OILS ETC.) (TEMPORARY CONTINUATION OF 2022 ORDER AND ADJUSTMENTS) ORDER 2026

2026 No. 164

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs ("HMRC") and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Rachel Nixon, Director for Indirect Tax at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Neil Mills at HMRC can be contacted by email at the following address with any queries regarding the instrument: neil.mills@hmrc.gov.uk. Alternatively, Neil Mills can be contacted by telephone: 03000 588 066.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument extends the current temporary cut in the rates of excise duty on fuel products[1] until 31 August 2026. After this, adjustments will be made to reduce the cut to the main fuel duty rates with the effect of increasing the rate payable by 1 pence per litre (ppl) on 1 September 2026 and by 2 ppl on 1 December 2026. Rates will return to levels set in the Hydrocarbon Oil Duties Act 1979 ("HODA") from 1 March 2027 with the effect that rates increase by 2 ppl when this instrument expires at the end of 28 February 2027. Fuel duty rates for rebated and lower taxed fuels will increase by the equivalent proportion of the temporary cut.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom (UK).

[1] Unleaded petrol; Light oil other than unleaded petrol; Heavy oil (diesel and kerosene); Aviation gasoline; Biodiesel; Bioblend; Bioethanol; Bioethanol blend; Aqua methanol; Natural road fuel gas including biogas, Other road fuel gas including liquified petroleum gas (LPG); Fuel oil; Marked gas oil (red diesel); Marked kerosene and other heavy oil used for heating; Light oil used as furnace fuel; Marked biodiesel, and substances supplied or used as fuel substitutes or as an additive or extender to fuel.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the UK.

5. Policy Context

What is being done and why?

5.1 The Chancellor of the Exchequer has decided to extend the temporary reduction in the amount of fuel duty payable, made by the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2022 ("the 2022 Order"), extended by the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2022 (Continuation) Order 2023 ("the 2023 Order"), by the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2022 (Continuation) Order 2024 ("the 2024 Order"), by the Excise Duties (Surcharges or Rebates) (Hydrocarbon Oils etc.) Order 2022 (Continuation) Order 2025 until 31 August 2026. After this, the main fuel duty rates will increase by 1 ppl on 1 September 2026 and by 2 ppl on 1 December 2026. Rates will increase by another 2 ppl when this instrument expires at the end of 28 February 2027, returning them to levels set in HODA from 1 March 2027. Fuel duty rates for rebated and lower taxed fuels will increase by the equivalent proportion of the temporary cut. This policy was announced in the Budget on 26 November 2025.

What was the previous policy, how is this different?

5.2 HODA currently requires the payment of fuel duty on hydrocarbon oils imported or produced in the UK for use within the UK. These hydrocarbon oil products are generally used to power an engine, motor, or other machinery. The duty rates before 2022's cut took effect varied from 67.67 ppl for light oil (other than unleaded petrol and aviation gasoline) to nil for kerosene used for heating.

5.3 The 2022 Order temporarily lowered the fuel duty rates payable by importers and producers of hydrocarbon oil products intended for the UK market for a period of one year.

5.4 The 2022 Order cut duty rates in HODA by 5 ppl or kilogram (as appropriate), or by 8.63% if this would result in a duty decrease in excess of 10% (the maximum permitted by the Excise Duties (Surcharges or Rebates) Act 1979), and by 5% for Aviation Gasoline.

5.5 The 2023 Order extended this cut for a further year until the end of 22 March 2024.

5.6 The 2024 Order extended this cut for a further year until the end of 22 March 2025.

5.7 The 2025 Order extended the cut for a further year until the end of 22 March 2026.

6. Legislative and Legal Context

How has the law changed?

6.1 The effect of this instrument will be to extend the effect of the 2022 Order until the end of 31 August 2026 before gradually reversing the temporary 5 ppl cut to fuel duty on petrol and diesel from 1 September 2026 until 28 February 2027, when rates will return to levels set in HODA from 1 March 2027.

Why was this approach taken to change the law?

6.2 To extend the temporary reduction on the taxation of fuel that ultimately impacts on consumers and businesses. The 5p cut will therefore be extended until 31 August

2026, with rates then gradually returning to March 2022 levels by 1 March 2027. This still represents a decline from the 2022 levels in real terms.

7. Consultation

Summary of consultation outcome and methodology

7.1 This instrument effectively legislates to extend the original cut in the liabilities to duty made by the 2022 Order until 31 August 2026 with rates then gradually returning to March 2022 levels by 1 March 2027 and this is a matter for the Chancellor of the Exchequer. The Government does not consult on tax rates as these are commercially sensitive.

8. Applicable Guidance

8.1 As fuel duty rates will change, guidance published on the fuel duty section of the GOV.UK website2 will be updated to coincide with the introduction of this instrument and each increase in the rates.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the GOV.UK website.3

Impact on businesses, charities, and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is an extended, temporary reduction in fuel costs by gradually reversing the temporary 5 ppl cut, which would otherwise end after 22 March 2026. These fuel users will continue to incur a lower amount of fuel duty, compared to before March 2022, until the end of February 2027, which will particularly benefit those where fuel is a significant part of ongoing running costs. One-off costs could include familiarisation with the new fuel duty rates and updating systems to reflect the changes. There are not expected to be any continuing costs.

9.3 No mitigating actions are needed to minimise the impact of the requirements on small businesses (employing up to 50 people) as this legislation will positively impact all businesses who use fuel by extending the temporary reduction of excise duty in the cost of fuel.

9.4 The impact on the public sector is an extended, temporary reduction in fuel costs until the end of February 2027, which will particularly benefit those where fuel is a significant part of ongoing running costs.

[2] Fuel duty rates: https://www.gov.uk/government/publications/rates-and-allowances-excise-duty-hydrocarbon-oils/excise-duty-hydrocarbon-oils-rates

[3] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This measure will be monitored through information collected from tax receipts. Continued collaboration with Department for Transport will also allow monitoring of traffic levels and emissions.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, Dan Tomlinson MP has made the following statement: "Under section 28(3)(a) a review clause is not required as the regulations make or amend provisions relating to a duty."

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument extends the existing temporary cut in the rates of excise duty on products within scope of HODA until 1 September 2026 before gradually reversing the cut. This policy was announced in the Budget on 26 November 2025.

12. European Convention on Human Rights

12.1 As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").

13.2 All fuel duty rates will remain above the minimum rates set in the Energy Taxation Directive (2003/96/EC) and therefore the instrument meets the UK Government's commitment in Article 8 of the Protocol on Ireland/Northern Ireland in the European Union Withdrawal Agreement that this directive shall apply to the UK in respect of Northern Ireland.