



Instituto de
Estudios Fiscales

Environmental Taxes on Passenger Cars (EU Proposals and Allocation of Taxing Powers)



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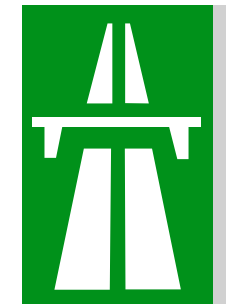
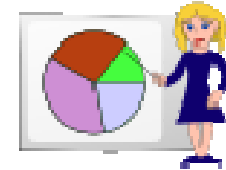
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OUTLINE

- **Introduction**
- **Registration Taxes**
- **Circulation Taxes**
- **Reallocation of Taxing Powers**
- **Conclusions**

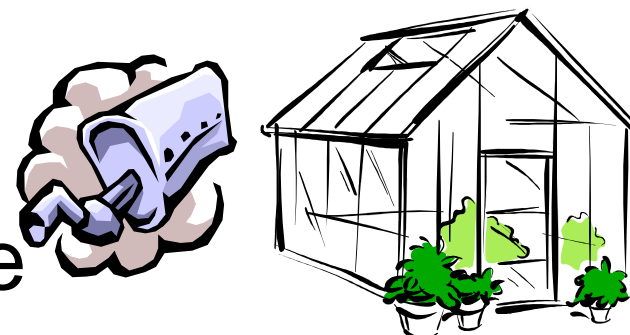




INTRODUCTION

WHERE ARE THE PROBLEMS?

- Road Transport as a Pollution Source
 - 23.52 % CO2 Emissions UE
 - Noise, Particles, etc.
- Non Covered by ET Scheme
- Current Registration and Circulation Taxes:
 - Are not always Designed as Environmental Taxes (although Eleven MS include environmental incentives)
 - Distort the Internal Market: double taxation, non harmonized tax rates





INTRODUCTION: COMMISSION'S APPROACH

Four Options:

O1) Do-Nothing-Approach

O2) Registration Tax Refund System to Avoid
Double Taxation



O3) Abolishing the Registration Tax and
Greening up the Circulation Tax



O4) Greening up Both Taxes and Reducing
the Registration Tax



REGISTRATION TAXES

- *Ad valorem* Taxes to be paid before the car is registered in a Member State (new cars or cars transferred from other countries)
- In Force in 10 Member States
- Justification?
 - Not on Grounds of Ability to Pay
 - Not always on Environmental Grounds
 - Revenue Reasons (Spain: replacement of the increased VAT rate for vehicles)



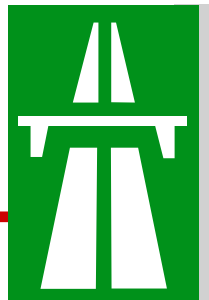


REGISTRATION TAXES


Proposal of Directive

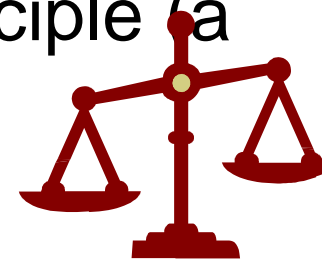
- Refund of the Residual Registration Tax when Transferring the car to other Member State
- Greening up the Tax
 - By 31 December 2008 : 25% Green Tax Revenue
 - By 31 December 2010 : 50 % Green Tax Revenue
 - By 31 December 2015 : Abolition of the Tax





CIRCULATION TAXES

- Assessed on an Annual Basis 
- Traditional Justification: Equivalence Principle (a simplified charge for car-related public expenditure)



Horse Power, Gross Weight, Passengers, Cubic Capacity

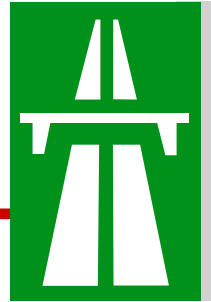


- Additional Justification: Polluter Pays Principle





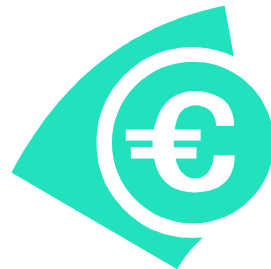
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CIRCULATION TAXES

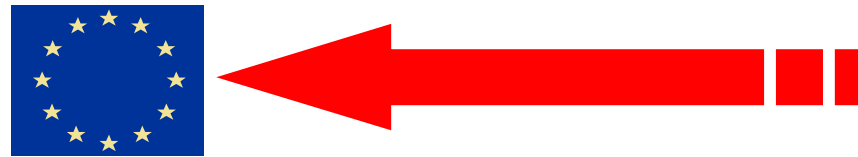
Proposal of Directive:

- By 31 December 2008 : 25% Green Tax Revenue
- By 31 December 2010 : 50 % Green Tax Revenue

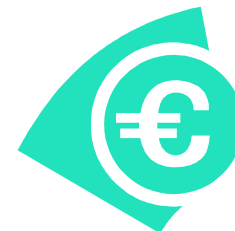




MEMBER STATES' REACTIONS (1)



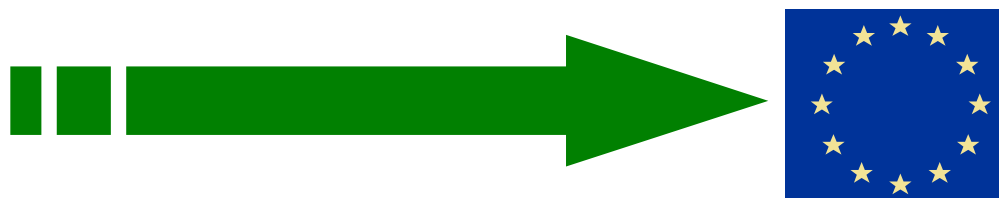
- Abolition of the RTax
 - Source of Revenue
 - Taxing Powers ceded to Sub-Central Entities
- Greening up the tax revenue
 - Interpretation problems: Is the Commission thinking of “ad valorem” Taxes?





MEMBER STATES' REACTIONS (2)

Partially Anticipating the Reform



THE NETHERLANDS: Option 3 Jager 2008 Tax Plan

1

Annually reducing 5%
Registration Tax Rates

Annually increasing 5%
Circulation Tax Rates

2

By 1 January 2011
Replacement of RT and CT by
an environmental *kilometerheffing*
“levy per kilometer” driven

Bonus for highly fuel-efficient cars (label A)
will go up from € 1,000 to € 1,400

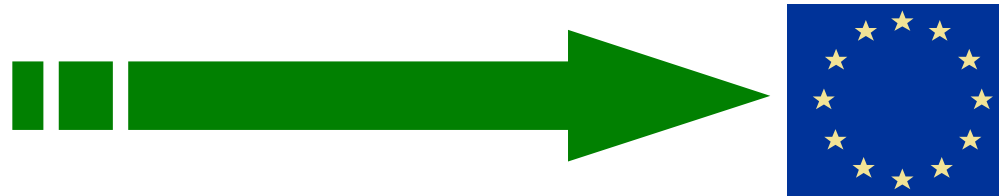
Penalty for highly inefficient cars (label G)
will rise from € 540 to € 1,600

CO2 surcharge (110€ per gram of CO2 above
-240 grams per kilometer (Petrol)
-200 grams per kilometer (Diesel))



MEMBER STATES' REACTIONS (2)

Partially Anticipating the Reform



SPAIN: Option 4
Proposal of Clean Air Act
Greening up the Circulation Tax

Environmental Brackets

Up to 120 gr. CO ₂ / Km.	0 %
120-160 gr. CO ₂ / Km	4,75 %
160-200 gr. CO ₂ / Km	9,75 %
More than 200 gr. CO ₂ / Km	14,75 %

Tax Base: price of the vehicle



REDISTRIBUTING TAXING POWERS IN SPAIN



- Abolition of the (Regional) Registration Tax



- Ceding the (Local) Circulation Taxing powers to the Regions
- Increase of the (green) Registration Tax Rates to Keep the Tax Revenue
- Financial Transfers to the Municipalities
- Technical and Political Problems





CONCLUSIONS

- A Two-Edged-Blade Strategy (Option 3):
 - Internal market
 - Environment
- Greening up Registration Tax (Option 4)
 - Reasonable objective
 - Minimum Rates?
- Taking the Opportunity and Solving Technical Problems Including the Redistribution of Taxing Powers

