

Annual tax report: how to free the EU potential for economic growth

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PURPOSE: to strengthen the Single Market by removing cross-border tax obstacles for passenger cars.

BACKGROUND: each year, about **3 million used cars are transferred between Member States**, of which up to 1 million are linked to people migrating from one Member State to another. The issues of **double or multiple taxation and of potential tax discrimination** in case of crossborder transfers of passenger cars are of concern to EU citizens and service providers. This can be an obstacle to EU citizens' right to move freely in the EU.

In its [2010 EU Citizenship Report](#), the Commission announced that it would work on solutions to double registration taxes on cars as this can be an obstacle to EU citizens' right to move freely in the EU and in its Communication '[Removing cross-border tax obstacles for EU citizens](#)' the Commission pointed out that, when buying a car in a Member State other than that of their normal residence or when transferring a car to a Member State other than that in which it is registered, EU citizens frequently face **excessively complex re-registration procedures** and may have to pay registration and/or circulation taxes twice.

It should be noted that, **currently, there is no harmonisation at EU level of car registration and circulation taxes**. The Commission has taken initiatives and put forward legislative proposals to solve these problems on three occasions, in 1975, in [1998](#) and in [2005](#). The 1975 proposal resulted in the adoption of **Directive 83/182/EEC**, providing tax exemptions for the temporary introduction of a motor-driven road vehicle into a Member State from another Member State.

Despite the jurisprudence of the Court and legislative actions, **it has not been possible to overcome the fragmentation of national tax schemes or to fully and systematically remove double taxation** and the potential tax discrimination of cars transferred by citizens from one Member State to another.

CONTENT: this Communication aims at clarifying the **EU rules on vehicle taxation**, explaining rights and obligations of Member States, citizens and businesses.

The Commission considers the **abolition of registration taxes** and integrating them (in a revenue neutral way) into the circulation taxes as well as the harmonisation and 'greening' of car taxation as the best solution to the remaining problems identified above. However, as the 2005 proposal has so far not been adopted, it is appropriate to **explore immediate solutions** to the problems identified in this Communication.

Hence, the Commission has identified and proposes to the Member States to apply the following best practices in the short term:

(1) Lack of information: to ensure that taxpayers know their rights and obligations when moving to another Member State, Member States should provide **adequate information** on their application of registration and circulation taxes on vehicles in cross-border situations, including information on how they have implemented the EU legal framework. To this end, a central contact point for taxpayers should be designated, to which a link can be provided on the **website** of the Commission.

(2) Double taxation: to avoid double taxation and 'over-taxation' where citizens move a car permanently from one Member State to another, Member States that initially applied a registration tax should as a

minimum grant a **partial refund of the tax** taking into account the depreciation of the car independently from whether or not the Member State of destination provides an exemption from registration tax, if any.

(3) Temporary transfer of a passenger car and rental cars: Member States should make full use of the **flexibility** offered by Directive 83/182/EEC to apply **more liberal arrangements** allowing for the temporary use of vehicles in Member States without application of registration and circulation tax. This relates, in particular, to rental cars registered in another Member State, but also to other situations of temporary or occasional use by a resident of a car registered in another Member State.

(4) Fragmentation of the EU car market: Member States should take action to reduce the fragmentation of the EU car market caused by the divergent application by Member States of car registration and circulation taxes. The **upcoming Guidelines on financial incentives for clean and energy-efficient vehicles** also need to be taken into account.

After having received the opinion of the institutions to which this Communication is addressed, the Commission intends to set up a **technical Working Group** to discuss the issues above with Member States. As a result of this process, **the discussions in the Council on the 2005 proposal could gain a new momentum. Revision of Directive 83/182/EEC** could also be envisaged in order to take account of the extensive jurisprudence of the Court and to enhance transparency and legal certainty.