Taxes: taxation of passengers cars at national and Community levels

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PURPOSE : to propose, for discussion in the Council and the European Parliament, policies and options for future action in the field of passenger car taxation. CONTENT : this communication is based on the outcome of two recent studies, as well as a number of best practices in use by Member States. It explores possibilities to: - modernise and simplify the existing vehicle taxation systems, and in particular to include new parameters in the tax bases of passenger car related taxes, in order to make them partially, or totally, CO2 based; - better co-ordinate and, at a later stage, to approximate passenger car taxation systems, and to remove tax obstacles and distortions to free circulation of passenger cars within the Internal Market. The EU passenger car market is fragmented into fifteen national markets, and this is partly due to very divergent policies in respect of car taxation. This raises a series of problems for both the European citizen and the car industry. The introduction of the Euro has started to bring greater price and tax transparency, and could increase pressure for more vehicle tax approximation. This Communication provides evidence that a number of policy measures and actions should be considered in the area of passenger car taxation, in order to provide definitive solutions for the problems faced by citizens and the car industry, and thus improve the functioning of the Internal Market and the benefits which EU consumers derive therefrom. Apart from this, the Communication has made clear that vehicle taxation can contribute to the achievement of the Kyoto Protocol commitments. The recommendations in this communication concern 2 main issues: 1) removing tax obstacles in the internal market for passenger cars : - registration tax levels should be gradually reduced, with a view of RT stabilisation at low levels, and preferably with a view to its total abolition. This action should take place over a transitional period of about 5 to 10 years. It should take into account the specific conditions in each Member State; - a gradual transfer of revenue from RT to ACT, and to some extent to fuel taxes, should be decided. This transfer is feasible, and can take place in parallel with the reduction of RT, in a budget neutral context; - action has to be taken in order to ensure a certain degree of ACT approximation among all Member States, in particular as regards tax bases. Reasonable ACT divergences would prevent car market fragmentation, and prevent increased tax avoidance in future; - the excise duty on diesel, used as fuel by passenger cars, should be gradually increased in view of its total alignment, in the medium term, to the excise duty applied on unleaded petrol. At the same time, ACT for diesel cars should be aligned to the ACT for petrol cars; - a RT refund system should be established without delay in all ten Member States currently applying a RT. This system should ensure, during the transitional period, a pro rata refund of the residual RT in all cases where a passenger car, registered in one Member State, is exported or is moved permanently to another Member State. Should such a system be adopted, it would resolve all problems relating to double payment of RT that the EU citizen faces today. The refund system should also apply in the case of cars moved permanently to another Member State in connection with a transfer of residence. The refund system would also have a positive influence on the export of used cars, because prices can be lower as a consequence of the refund of RT; - general rules with regard to the method of calculation of RT on used cars imported from other Member States should be established. This method of calculation of the residual amount of RT should also apply to the refund system; - general rules should be established with regard to the avoidance of double taxation of ACT. 2) fiscal measures one of the tools for CO2 emissions reduction of cars : - Vehicle tax bases need to be restructured in order to establish a more direct relation between taxation levels and the CO2 emissions of new passenger cars. Both RT and ACT should be turned into entirely CO2 based taxes, or at least a CO2 sensitive element should be added to both of them. This structural change is necessary in order to optimise the effect of taxation on the reduction of CO2 emissions from new passenger cars. It should take into account the specific conditions in each Member State. For example if the RT in a Member State is already rather low, the transitional period during which the RT will be further reduced could be relatively short. In this case, it may not be worthwhile to carry through this structural change in the RT. The restructuring should then focus on the ACT, in a context of gradual approximation of tax

bases; - all Member States should establish tax differentiation as an important parameter for making passenger car tax systems more CO2 efficient and optionally to contribute to the reduction of other emissions. The optimal level of tax differentiation could differ from one Member State to another, taking into account the particular characteristics of each Member State's market. - company car taxation has to take into account the general objectives of EU policies, and in particular, those of transport and environmental policies. Lastly, the Commission recommends that the Council approve these general principles and that the Member States should take into account these general principles when evaluating and revising their national vehicle taxation systems. The Commission, based on these principles and in the light of the results of the consultation process, could submit proposals for Community legislation.