Taxes: taxation of passenger cars calculated on the basis of their emissions of carbon dioxide

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PURPOSE: to lay down rules for the calculation of taxes on passenger cars, on the basis of their emissions of carbon dioxide and the elimination of registration taxes.

PROPOSED ACT: Council Directive.

CONTENT: The purpose of the current proposal is two-fold: to improve the functioning of the Internal Market and to implement the Community's strategy to reduce CO2 emissions from passenger cars. The proposal does not intend to introduce any new passenger car related taxes, but only aims at restructuring such taxes if they are applied by Member States, without obliging them to introduce such taxes.

In the area of passenger cars the proper functioning of the Internal Market faces important problems. Disproportionate registration tax (RT) levels contribute considerably to pre-tax price differentials among Member State markets and keep car retail prices high and make, for low income citizens, the replacement of their old cars more difficult.

Transport is responsible for about 28% of total CO2 emissions. Road transport alone represents about 84% of all transport related CO2 emissions of which more than half is accounted for by passenger cars. The genuine use of fiscal measures to meet Community's target of 120 g CO2 per Km is fundamental to the Community strategy. Fiscal measures provide a strong incentive value, for example, by encouraging the rapid renewal of the car fleet and influencing consumer's behaviour towards more fuel-efficient passenger cars.

In September 2002, the Commission presented a Communication (COM(2002)0431) for consultation, which outlined a number of policy options for future action on taxation of passenger cars in the European Union. The Commission announced that, based on the principles of this Communication and in the light of the results of the consultation, it would submit proposals for Community legislation in certain areas which could be better dealt with at Community level.

There are three main measures introduced by the proposal:

1) The abolition of Registration tax: this action received strong support from nearly all those involved in the consultation procedure, as Registration Taxes are viewed as representing a clear obstacle to the freedom of movement of cars in the internal market and negatively affects the competitiveness of the European car industry. Any solution based on the retention of RT would not eliminate these obstacles. The proposal provides for a gradual abolition of RT over a transitional period of five to ten years, in order to avoid an excessive tax burden on those car users who have bought a car and paid a high registration tax, and who are then faced with having to pay also a higher annual circulation tax (ACT) and fuel taxes. Member States applying high Registration Taxes would need to provide for specific tax treatment of these cars for a period corresponding to their average lifetime. Additionally, the gradual application of this measure would provide sufficient protection to holders of used cars against any immediate loss of their commercial value.

Lastly, sufficient time is given to those Member States applying high RT in order to fulfil the structural changes to their car tax systems and cover the transition costs, taking into account the specific conditions of their car market.

2) Establishment of a RT refund system: the provisions establishing this system are to be applied on those passenger cars which have been registered in a Member State and are subsequently exported or permanently transferred to another Member State. The objective of this measure is two-fold; first to avoid double payment of registration taxes, and second it seeks to charge registration taxes according to the use of the car in the Member State concerned. With the aim of ensuring legal certainty and transparency for the European citizens, the proposal replies to the need for transparent and objective criteria and rules to establish the real residual value of used cars and, therefore, ensure a fairer basis for calculating the residual RT for outgoing and incoming cars. The proposal incorporates the criteria established by the recent jurisprudence of the European Court of Justice, which should reduce considerably the large number of complaints raised by citizens.

The proposal aims at establishing a similar refund system for ACT, the calculation of the amount to refund or to charge should be made on a pro rata temporis basis.

3) Restructuring the tax base of RT and ACT to be totally or partially CO2 based: during the consultation process, the vast majority of participants agreed that it is time to apply the third pillar measures (fiscal measures) foreseen by the Community's strategy to reduce CO2 emissions from passenger cars, and take benefit of their strong incentive capacity, in order to influence consumer's behaviour towards more environmentally friendly passenger cars.

The Proposal incorporates this policy option which received strong support during the consultation procedure. Concerning ACT, which are the taxes applied by most Member States, the proposal provides for the restructuring of their tax base in order to apply ACT partially or totally based on the carbon dioxide emissions of each particular passenger car by 2010. With regard to RT, Member States applying such taxes should also insert a CO2 based element into their tax base by 2010 while at the same time they are proceeding with their gradual abolition.

The period envisaged for carrying out the restructuring of the tax base of both the ACT and RT takes into account the commitment taken by the European Community to reduce carbon dioxide emissions from passenger cars to 120 g/km by 2010 at the latest.

To avoid further internal market fragmentation based on potential diversified application by Member States of the carbon dioxide element, the Commission proposes that by 1 December 2008 (the start of the Kyoto period) at least 25% of the total tax revenue from registration and annual circulation taxes respectively should originate in the CO2 based element of each of these taxes. By 31 December 2010, at least 50% of the total tax revenue from both the annual circulation tax and the Registration tax (pending its abolition) should originate in the CO2 based element of each of these taxes.

Recent studiesprovided examples on how Member States can apply the CO2 based element. In this case the total revenue from the CO2 based element of the tax should be gradually increased over the period up to 2010 and at the same time the revenue from the old structure of the tax should be gradually reduced if the revenue neutrality is to be respected. It will certainly be for each Member State to fix the level of tax in terms of Euros per g CO2 per km.