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

2005/0130(CNS) - 05/07/2005 - Document attached to the procedure

COMMISSION'S IMPACT ASSESSMENT

For further information concerning the background to this issue, please refer to the summary of the Commission's initial proposal COM(2005)0261 of 5 July 2005 concerning rules on the calculation of taxes on passenger cars.

1. POLICY OPTIONS AND IMPACTS: Four policy options were considered in the Commission's extended impact assessment.

1.1- Option 1 -A "do nothing" approach: This would leave all decisions to Member States and the European Court of Justice (CoJ). If no action is taken, the operation of the Internal Market will not improve and the Community's target of 120g CO_2 emissions per Km will run the risk of not being achieved by 2010.

1.2- Option 2 - Rely on existing passenger car taxes, but only introduce a RT refund system in order to avoid double taxation: This option is not justifiable within the context of the Internal Market as the introduction of a RT Refund system would represent the minimum necessary to tackle the double taxation problem, but would not address any of the other problems citizens, the car industry and trade face. Moreover, this system would have to be accompanied by a number of Community rules in order to establish objective and transparent methods for establishing the residual value of used cars permanently transferred to another Member State.

1.3- Option 3 - The total abolition of RT, over a ten year transitional period, the immediate establishment of a RT Refund system to apply during the transitional period and the restructuring of both RT and ACT tax bases to include a CO_2 element. This is the Commission's preferred option.

1.4- Option 4 - Comprehensive EU passenger car policy: This would aim to reduce RT gradually to a level which will not exceed the level of 10% of car pre-tax prices over a period of 5-10 years; bring in a RT Refund System for used passenger cars and establish transparent and objective rules concerning the method of evaluating the residual value of used cars; and restructure the tax bases of both ACT and RT in order to contain CO2 elements which are directly sensitive to the CO_2 emissions of passenger cars. However, this option is not fully consistent with the Commission's opinion that RT is the main obstacle disturbing the free movement and transfer of passenger cars within the Internal Market and represents a second best option. The missing element is that, instead of including the total abolition of RT, this option provides for its gradual reduction to a low level, which has been fixed at a maximum of 10% of car pre-tax price.

CONCLUSION: **Providing for the total abolition of RT should lead to both an improvement of the functioning of the Internal Market and to an important contribution in achieving the objectives of sustainability provided for by the Kyoto Protocol**. The chosen option (Option 3) would give impetus to the car industry to fully benefit from economies of scale, increase competitiveness and to a certain degree employment. An additional obstacle to free circulation of goods and persons will be lifted. Also, national taxation systems will be approximated and to a certain degree harmonised particularly as far as the car tax bases are concerned.

IMPACTS: The **economic and environmental** impacts of RT removal depend entirely on the extent to which car ownership and the demand for new cars are affected. If they are affected, RT removal would have economic and environmental consequences, in particular in high RT Member States.

From the **perspective of the Internal Market**, the reduction of car retail prices in high tax Member States should leave car producers and dealers scope for reducing pre-tax price differentials, and hence allow the car industry to better benefit from the Internal Market.

From the **perspective of the car industry**, the RT removal would simplify the tax systems and facilitate car trade across borders in the Internal Market. Lower retail prices would boost the sales of new car models in the high RT Member States, which would naturally benefit the car industry. However, car producers would still need to take into account the high ACT differentials between Member States, which would limit the possibilities for price consumer or pre-tax price approximation. The proposal will provide for a gradual transfer of revenue from RT to ACT and to fuel tax over a 10-year transitional period. It is certain that the first years of application will be the most difficult for the high taxing Member States. Revenue losses from the reduced RT will have to be covered by both higher ACT and higher fuel taxes. Progressively, the importance of RT will be reduced and the need for controls and enforcement mechanisms will decrease.

Since RT removal seems to increase car demand and car ownership at least to some extent, the emissions of CO_2 and air pollutants, as well as congestion and noise problems would also increase in high RT countries. However, higher demand for new cars would also lead to more rapid renewal of the vehicle fleet, which would counteract the negative **environmental** consequences of increased car ownership concerning CO_2 emissions. New cars are generally more efficient and less polluting than older cars. Since the two effects are counteracting, the net impact on CO_2 emissions is uncertain. The environmental problems related to urban air quality, noise and congestion would be aggravated in high RT countries, if the increase in car ownership were substantial. It seems certain that potentially harmful environmental impact of RT removal could be at least partly counteracted by the introduction of CO_2 differentiation to the ACT base. In this sense, the latter measure is indeed an indispensable part of the proposal, and would be a further important policy instrument for combating climate change in the EU.

The provisions establishing a RT refund system have the most important impact on **citizens**, who no longer have to pay the RT twice. Apart from the double taxation problem, the citizen will certainly benefit from the simplification of the procedures necessary for moving a car from one Member State to another. The immediate application of a RT refund system is expected to reduce legal uncertainty, increase transparency and reduce considerably the administrative and transaction costs relating to these transfers.

Citizens will benefit from lower car pre-tax and consumer prices in the high taxing Member States that will facilitate the renewal of the car fleet and its replacement by cheaper, safer and less polluting ones. Passenger car taxes can play an incentive role and accelerate this process.

2- FOLLOW-UP: The proposal provides for the presentation of two reports by the Commission concerning both the application and the results achieved in regard to the key objectives of the Directive. The first has to be presented 5 years after the entry into force of the Directive and the second soon after the end of the 10-year transitional period. These reports are expected to provide evidence about the progress made in all areas of concern (abolition of RT, functioning of the RT refund system and the progress made in establishing CO_2 based car taxes). It is possible that the Council will be asked to adopt new measures, after having consulted the European Parliament, in order to achieve the Community's strategic objectives and promote sustainability.