Basic information

2005/0130(CNS) CNS - Consultation procedure Directive	Procedure lapsed or withdrawn
Taxes: taxation of passenger cars calculated on the basis of their emissions of carbon dioxide **Subject** 2.70.02 Indirect taxation, VAT, excise duties 3.40.03 Motor industry, cycle and motorcycle, commercial and agricultural vehicles 3.70.15 Environmental taxation	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	RIIS-JØRGENSEN Karin (ALDE)	05/09/2005

Committee for opinion	Rapporteur for opinion	Appointed
ENVI Environment, Public Health and Food Safety	TURMES Claude (Verts /ALE)	14/09/2005
TRAN Transport and Tourism	WIERSMA Jan Marinus (PSE)	14/09/2005

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2828	2007-11-13

European Commission

Commission DG	Commissioner
Taxation and Customs Union	ŠEMETA Algirdas

Key events

Date	Event	Reference	Summary
05/07/2005	Legislative proposal published	COM(2005)0261	Summary
08/09/2005	Committee referral announced in Parliament		

21/06/2006	Vote in committee		Summary
10/07/2006	Committee report tabled for plenary, 1st reading/single reading	A6-0240/2006	
04/09/2006	Debate in Parliament		
05/09/2006	Decision by Parliament	T6-0334/2006	Summary
05/09/2006	Results of vote in Parliament		
13/11/2007	Debate in Council		Summary
07/03/2015	Proposal withdrawn by Commission		

Technical information

Procedure reference	2005/0130(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
Legal basis	Treaty on the Functioning of the European Union TFEU 113
Stage reached in procedure	Procedure lapsed or withdrawn
Committee dossier	ECON/6/29518

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE364.912	06/04/2006	
Committee opinion	ENVI	PE362.840	26/04/2006	
Committee opinion	TRAN	PE367.698	28/04/2006	
Amendments tabled in committee		PE374.047	08/05/2006	
Committee report tabled for plenary, 1st reading/single reading		A6-0240/2006	10/07/2006	
Text adopted by Parliament, 1st reading/single reading		T6-0334/2006	05/09/2006	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2005)0261	05/07/2005	Summary
Document attached to the procedure	SEC(2005)0809	05/07/2005	Summary
Commission response to text adopted in plenary	SP(2006)4772	19/10/2006	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES0749/2006	17/05/2006	

Additional information		
Source	Document	Date
European Commission	EUR-Lex	

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.

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

2005/0130(CNS) - 05/09/2006 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a resolution drafted by Karin **RIIS-JØRGENSEN** (ALDE, DK) by 385 votes in favour to 139 against with 109 abstentions, and made several amendments to the Commission’s proposal.

Parliament backed the Commission’s general approach, though it felt that the environmental aspect should be broader. Accordingly, in addition to the carbon dioxide-based element introduced by the Directive, the Member States may introduce differentiated taxation based on pollutant emissions and the Euro classification into their national motor vehicle taxation systems.

In addition:

- the Commission should produce, by 31 December 2006, a study "on the weight that should be given to other possible factors in setting the tax base for passenger car taxes";

- in the interest of preserving classic and old vintage vehicles, nothing in the Directive should inhibit the right of Member States to exempt vehicles of at least 20 years of age from circulation taxes;

- it is recommended that the relevant provisions be extended to the EEA-EFTA countries;

- until 31 December 2015, where registration taxes have been maintained, graduated progressive tax differentiation shall be applied to each particular passenger car on the basis of its carbon dioxide and pollutant emissions, measured in grams per kilometre, and its fuel consumption, calculated in litres per 100 kilometres in accordance with the parameters laid down by Directive 1999/100/EC;

- Member States shall communicate to the Commission any measures taken to differentiate company car taxation based on fuel efficiency. The Commission shall facilitate the exchange of best practice by publishing, on-line, a comparative report of the approaches taken by each Member State;

- Parliament introduced an amendment to one of the recitals stipulating that the changes introduced by the directive should be "in accordance with the principle of budget neutrality", i.e. the replacement of the registration tax by the annual circulation tax should not result in a loss of revenue for certain Member States;

- another amendment urged Member States to refrain from imposing double taxation in the case of registration taxes during the transitional period, particularly for EU citizens returning to their country of origin after spending more than 2 years in another Member State;

- in order to reduce the transaction costs associated with the payment and refund of registration taxes, Member States will, under the coordination of the Commission, set up a joint one-stop online solution for the calculation, refund and payment of car registration taxes available to EU residents moving to any Member State.

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

2005/0130(CNS) - 05/07/2005 - Legislative proposal

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.

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

2005/0130(CNS) - 13/11/2007

The Council held a policy debate on a proposal for a directive on passenger car-related taxation, aimed at ensuring a better operation of the EU single market in the automobile sector and helping to reduce CO2 emissions.

The debate revealed a convergence of views on the need to use fiscal measures in passenger car taxation for the purpose of discouraging environmentally damaging behaviour. However, different views were expressed on how to achieve this objective, in particular on the need for a Community initiative in this field.

The Presidency, together with the Commission, will consider how to proceed with the dossier.