

## Taxation

# Latest update on green car taxation in the EU

**While the debate on the technological side for CO<sub>2</sub> reductions by imposing specific targets to car manufacturers is still not finalised, Member States, mainly in Western Europe, are seeing the first signs of the positive impact of CO<sub>2</sub> related incentives and car taxation.**

Since a new year is approaching fast, we thought it was the right time to have a look at what governments are introducing or assessing to introduce as new CO<sub>2</sub> related measures for their 2009 budgets. With the introduction of these new measures, Europe moves further away from a harmonised approach – which some stakeholders warned against –, leading to the fragmentation of the internal market. On the other hand fiscal incentives, even if not harmonised, have proven to be effective in stimulating consumer demand for innovative automotive technologies. This implies a strong need to balance the push on the technological side, enabling car manufacturers to actually sell their CO<sub>2</sub> friendly cars.

We provide you below with our non-exhaustive overview of the actions recently taken, together with the plans in the pipeline for Western European countries. It is fair to say that, taking into account the high average age of their car park, Eastern European countries are, with some exceptions (Cyprus), still running behind when it comes to introducing CO<sub>2</sub> measures in car taxation.

### Recent national “green” car taxation within the EU

Since 1 April 2008, in Belgium, the CO<sub>2</sub> related deductibility of car expenses for Corporate Taxes has been enlarged to all car costs, with the excep-



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tion, amongst others, of fuel. The deductibility ranges from 60% (more than 175 gr/km for diesel cars, 190 gr/km for petrol cars) to 90% (less than 105 gr/km for diesel cars, 120 gr/km for petrol cars) of the costs. For 2009 it is planned that fuel expenses for company vehicles where there is private use will follow the same rule.

In Ireland, since July 2008, newly registered cars are taxed based on their CO<sub>2</sub> emissions instead of engine size. Rates vary from 14% for cars with CO<sub>2</sub> emissions up to 120g/km to 36% for cars

with CO<sub>2</sub> emissions above 225 g/km. Hybrid and flexible fuel vehicles will benefit from an additional tax relief of 2,500 EUR. The annual circulation tax will also be based on CO<sub>2</sub> emissions. Rates will vary from 100 EUR (up to 120 g/km) to 2,000 EUR (above 225 g/km).

### Future national “green” car taxation within the EU

Germany has finally announced how it will reform its tax system to factor in CO<sub>2</sub> emission levels. However, it will only do that as from 1 January 2010. The system will not only change from being an annual road tax based on engine displacement to being dependent on CO<sub>2</sub> emission levels, but it will also change hands. Until now, car taxes were a matter of the Länder (states). This new system is a Federal one, and the switch is blamed as the reason for the delay.

In the Netherlands, from 2009 to 2013, private motor vehicle and motorcycle tax (“BPM”) will be gradually converted from a tax based on a vehicle's list price to a tax based on its CO<sub>2</sub> emissions. The first step – exempting extremely fuel-efficient cars from BPM – will be taken in 2009. In addition, the levy of BPM will gradually decrease and be ultimately phased out in 2018 simultaneously with an increase in motor vehicle tax (“MRB”). The Tax Plan 2009 allows for the gradual elimination of BPM and shift to MRB to occur from 2009 up to

and including 2013. The MRB on Euro 0, I, and II trucks will be increased by 90%, 75%, and 60%, respectively. A new reduced percentage of 20% of the list price has been introduced as an addition to taxable income or withdrawal for the private use of fuel-efficient company cars. This rate will apply to gas-powered cars whose CO<sub>2</sub> emissions are between 110 and 140 grams per kilometre and to diesel-powered cars whose CO<sub>2</sub> emissions are between 95 and 116. Cars that are even more fuel-efficient have qualified for a 14% addition to taxable income since 2008.

In the U.K., the structure of vehicle tax (vehicle excise duty) will be reformed from 2009, to reward drivers of more fuel efficient cars and encourage them to consider the environmental performance when buying a new car. New, smaller tax bands will be introduced from 1 April 2009 (for cars registered after 1 March 2001), so that a small change in carbon dioxide emissions has a bigger effect on the cost of vehicle tax. These changes include: reduced rates for cars that emit up to 150 g of CO<sub>2</sub> per km, increased rates for the most polluting cars and a new top band for cars that emit more than 255 g of CO<sub>2</sub> per km.

Alternative fuel cars will receive a discount of £20 (bands A to I) or £15 (bands J to M) in 2009-10, and £10 (all bands) in 2010-11.

There will also be a new rate for the first year of owning a new car from 1 April 2010, with higher rates for the most polluting cars. For the least polluting new cars, which emit 130 g of CO<sub>2</sub> per km or less, the first year rate will be

zero. For new cars that emit between 131 and 160 g of CO<sub>2</sub> per km, the first year rate will be the same as the standard rate.

In *France*, although the bonus/malus system has been more expensive than planned for the French government, there are no plans to lower the thresholds. Rumors are that a similar system is to be introduced for the annual car taxes as well.

In *Portugal*, a country with the lowest CO<sub>2</sub> emissions car park in Europe, the government is highly motivated to create the right environment for a significant push towards electric vehicles. Measures in that respect are to be expected.

The *Spanish* government plans to have the taxation of the two-wheeled vehicles also based on CO<sub>2</sub> emissions as of January 2009.

### Adapting to trends and welcoming change

All of the above clearly indicates that CO<sub>2</sub> will be increasingly used as a basis to tax vehicles. These fiscal incentives have proven their impact and are welcomed by the car manufacturers, although the non harmonised implementation of such measures further increases the fragmentation of the internal market.

It should also be an additional stimulation for fleets to move into the 'green' direction. More than ever, going green will help reduce (or balance predicted increases of) the total cost of ownership: apart from less cars taxes, it will reduce fuel costs and should have a positive effect on the residual value, highly under pressure lately.

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