Company car taxation 'harming the environment'

Research for the European Commission has shown that the environmental benefit of fuel taxes is being undermined by tax breaks for company cars, a commission official told delegates at a workshop held in Brussels on Monday.

The workshop, co-organised by the commission's tax department and environmental groups Green Budget Europe and EEB, was the first public discussion of the study since it was conducted by consultancy Copenhagen Economics in 2009.

The commission recognises that company car taxation is a problem, said the official. The recently launched review of VAT policy might be one way in which it could be addressed. But no proposals are being considered at the moment.

A draft white paper on transport leaked last week says "many branches of transport are treated favourably in terms of taxation, in comparison to the rest of the economy", and that policies on company car taxation can provide "conflicting incentives with respect to the efforts to improve the efficiency of the transport system".

The consultancy study finds that, in addition to being a loss of government revenues, tax breaks for company cars are hurting the environment in two ways. Employees tend to choose the most fuel-intensive vehicles when provided for free by their company and they drive more often when their fuel use is covered.

Company car taxation varies across the EU. In Belgium and Greece company cars are not taxed, while in Germany and the Netherlands only a fraction of what is paid for the car is taxed. Several member states also charge no tax for fuel costs.

The study concludes such subsidies should be scrapped. It discourages incentives such as the UK's policy of offering premiums for buying energy-efficient cars. However, a professor from the UK's Open University told the workshop that the British premiums will deliver carbon reductions, a 1% cut in total car emissions by 2020.

Green Budget Europe president Anselm Görres warned that changing the tax policies will be difficult because the automotive industry benefits significantly from them. But he added he was encouraged that the commission and some member states are now starting to acknowledge that the policies can be harmful to the environment.