Is the tax treatment of company cars environmentally harmful in the EU?
Opening remarks

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Why is the conference organised?

Starting point:
- The study of Copenhagen Economics (2009) for the Commission on the tax treatment of company cars
- Striking results, worthy of being more widely known, important policy implications

What the conference should do?
- Discuss further the results and methodology
- Put the results in a wider policy context
- Identify and assess possible policy solutions
- Compare experiences of countries in relation to company car taxation
**Tax issues**

Personal income taxation

- Taxation of fringe benefits at the employee level related to the use of company cars → the focus of the CE study
- The subsidy rate is calculated as the difference between the tax-neutral tax base and the actual imputed tax base
- The tax neutral tax base (the benchmark) can be determined on the basis of the actual costs incurred by the employer (financing, depreciation, maintenance, insurance fuel costs) → firm cost principle
- Or, on the basis of the cost to the employee, if he/ she owned the car → opportunity cost principle

Corporate income taxation

- could favour the use of company cars through e.g. depreciation rules → the CE study did not find much evidence
**Tax issues**

**Indirect taxation**

- Most important transport-related tax instruments in the EU: taxes on transport fuels, car ownership (annual circulation tax), car purchases (registration tax)

- These can be used to discourage environmentally harmful behaviour by increasing the costs of using, owning or buying cars

- They can also be used, if designed properly, to encourage environmentally-friendly choices (e.g. less-emitting cars)

- It is important to point out that subsidising company cars through direct taxation could, at least partly, invalidate the desired favourable effects of indirect taxes on the consumers’ behaviour. Consumers’ driving habits or choices of car models are not affected by taxes, if they don’t pay for the fuel or bear ownership costs.
Environmental tax revenues and the fiscal loss from the undertaxation of company cars in the EU Member States in 2008, as % of GDP
**Environmentally harmful subsidies**

A definition:

“A result of the government action that confers an advantage on consumers and producers, in order to supplement their income or lower their costs, but doing so, discriminates against sound environmental practices”.

(IIEP, 2009, adapted from OECD 1998, 2005)

- There are many forms of EHSs in the EU, for example reduced VAT rates on domestic heating, or tax exemptions accorded to energy-intensive industries.
- There is so far not sufficient systematic information on the use, size or effects of EHSs in the EU.
- The Copenhagen Economics study is a good example of the information that is needed, but it is only one case. Clearly more similar work should be done in the EU in this area.
EU policy objectives

I would like to put the issue in a wider policy context and say a few words on the following topics:

- EU 2020 strategy and the resource-efficient Europe
- Fiscal consolidation and exit strategies
- Environmental objectives in the transport sector
- G20 initiative to phase out fossil fuel subsidies
Europe 2020 and resource-efficient Europe

Europe 2020 is now the main strategy to deliver growth and jobs in the EU

- Three priorities: smart, sustainable and inclusive growth
- Five headline targets and seven flagship initiatives
- Enhanced monitoring system and more focused country surveillance (European semester), covering macro-economic imbalances, fiscal policy and structural reforms → policy recommendations to be addressed to the Member States also on selected thematic issues, such as energy or climate change
Resource-efficient Europe

- Is one of seven flagship initiatives
- The main aim: support shift to resource-efficient and low-carbon economy
- A wide set of policies and measures proposed to support these objectives, both at the EU and national level
- Phasing out environmentally harmful subsidies is singled out as one of the actions the Member States need to take in the context of this initiative
- This should be done in a way that does not harm the social objectives of Europe 2020
Fiscal consolidation and exit strategies

• There is an urgent need to restore the balance of public finances and return to a sustainable path
• In many countries this requires radical cuts of public expenditure increase of taxes, or both
• Quality of taxation is essential, it means
  1. make the structure of taxation growth-friendly (e.g. more burden on consumption and environment, less on capital and labour)
  2. design individual taxes so that they are “smart” (e.g. minimally distortive, environmentally friendly) → supporting the use of company cars in direct taxation is an example of bad quality of taxation
Fiscal consolidation and exit strategies

- The revenues that can be collected from environmental taxation and phasing out EHSs is not alone sufficient to ensure fiscal consolidation, but it can certainly make it much less painful.

Some quantitative illustrations:
- Environmental taxes generated in the EU ca €300 bn in 2008 (2.4% of GDP)
- Introducing an EU-wide carbon tax would generate, according to the OECD estimates, tax revenue of about 1% of GDP
- Fiscal loss due the undertaxation of company car benefits €53 bn or 0.5% of GDP (the CE study estimates)
- The need for fiscal consolidation is in the worst hit countries much higher than these figures, up to 6 – 7 % of GDP
Environmental objectives in the transport sector

Climate policy:
- The transport sector accounts for one quarter of EU CO2 emissions, the share of road transport 71,3%
- Company cars form half of new registrations currently in the EU and are generally bigger and more-emitting than the average car (CE study) → a non-negligible share of all CO2 emissions in the EU are due to company cars
- The transport sector is also the one where CO2 emissions are growing faster than in any other sector
- Therefore it is quite essential to reverse this trend to reach the EU long-terms climate policy objectives (to reduce GHG emission 80-95% by 2050 compared with 1990)

Air quality and urban environment:
- The emissions of particles and other pollutants from road transport have negative health impacts
- Also noise and congestion reduce the quality of urban environments
- Favoured the use of company cars only aggravates these problems and also reduces the efficiency of the tax instruments meant to address these problems
**G20 initiative to phase out fossil fuel subsidies**

- The commitment of G20 leaders of 2009 Pittsburgh summit: “to rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption.”
- In this workshop we will hear more about this initiative and a large amount of work that has already been carried out in international organisations in this field.
- The issue of company car taxation is clearly relevant in this context, it is one example of how tax systems in developed countries can encourage wasteful consumption of energy.
CONCLUSION

- Need to question our Tax Regimes

- »SMART » Taxation

- Importance of environmental issues

- What does this mean for Tax Treatment of Company Cars