Company cars costing Europeans billions and harming environment

[Brussels, 28 February] - Subsidies for company cars are costing Europeans up to €54 billion annually, equivalent to 0.5% of the EU’s GDP in lost tax revenues. This is according to a study commissioned by the European Commission and under discussion today at a workshop in Brussels.

The conference, organised by Green Budget Europe, the European Environmental Bureau (EEB) and DG TAXUD of the European Commission discussed and analysed the impact of EU company car taxation on welfare and environment. The groups also assessed revenues lost to governments – of crucial importance in a time of fiscal austerity – and identified ways to reform.

Current tax subsidies were shown to distort consumer choice by creating certain contradictions, such as inducing over purchasing of cars, influencing the types of cars on the market in favour of high-emitting, less efficient vehicles, and increasing the number of journeys made.

The study by Copenhagen Economics has estimated that resulting welfare losses (alongside losses in tax revenue of up to €54 billion annually) amount to as much as €37 billion. This is calculated as the difference between willingness to pay and the actual cost incurred for all company car users.

Green groups demonstrated that while European governments work to aid welfare and environment on the one hand, they are supporting subsidies which inadvertently damage any possible progress.

Research from Jos van Ommeren and Eva Gutiérrez-i-Puigarnau from the VU University, Amsterdam, revealed that company cars represent 40% of all new cars on the market in the Netherlands - about 700,000 in total - and account for €420 to €600 million in welfare losses.

“At a time when Member States need to be consolidating their budgets, it makes no sense to continue subsidising company cars to the tune of 54 billion euros. This preferential tax treatment of company cars has shown to increase fuel use and encourage purchasing decisions unrelated to engine efficiency, all leading to more cars, more pollution and more emissions,” said Anselm Gorres, President of Green Budget Europe.

“Under its Europe 2020 Strategy, Europe is looking to phase out environmentally harmful subsidies, it can start here, by reforming the tax on company cars,” he continued.

Workshop participants heard about the positive impacts of company car tax reform in the UK from Stephen Potter of the Open University. The UK introduced reforms in 2002, which have resulted in reduced business distances of 45% and reduced CO2 emissions of between 0.4-0.9 million tonnes of carbon annually between 2010-2020. This amounts to a 1% cut in total UK car emissions as a result of this single reform.

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