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Indirect taxation other than turnover taxes

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VEHICLE TAXATION IN THE EUROPEAN UNION 1997

BACKGROUND PAPER

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1. INTRODUCTION.

1.1. Motoring has been an important source of revenue for a long time. All Member States rely heavily on a range of tax instruments to ensure significant budgetary receipts from both private and commercial road users. The systems implemented in each Member State reflect a variety of influences beyond the obvious need to raise revenue: geographic, industrial, social, environmental, energy, transport policy considerations can all have a bearing on the type of approach followed.

1.2. The variety of influences has led, traditionally, to large differences in the overall strategies followed in the Member States. These differences apply both in terms of the overall level of dependence on the sector for a contribution to total revenues and in terms of the choice of instruments and their precise implementation. The instruments available include taxes payable at the time of acquisition or first putting into service of a vehicle, periodic taxes payable in connection with use of the vehicle, taxes on fuel, insurance taxes, road user charges, road tolls etc.

1.3. In the run-up to the internal market, there was an expectation that vehicle taxes would be approximated after 1992. In the event, only a very limited degree of approximation took place. Luxury VAT rates were abolished, and taxes on goods or services, including motor vehicles, which involved border-crossing formalities for intra-Community trade were prohibited. That said, Member States retained the right to maintain or introduce taxes on goods or services, including motor vehicles, which did not give rise to such border-crossing formalities. As a result, most Member States which previously applied a luxury VAT rate and/or an excise duty on cars introduced new taxes or modified existing taxes on motor vehicles, typically in the form of registration taxes, thus continuing and, in some cases, exacerbating the disparities between systems across the Community. Furthermore, it became clear that taxes would continue to be payable in the country where the owner resides, with special rules introduced to give effect to this principle for VAT on new cars. Whilst these measures provided Member State governments with a means of preserving revenue receipts, they fell a long way short of the expectations of the European motor trade and citizens/consumers.

1.4. Since 1993, there has been growing pressure for some intervention in this area for internal market reasons. From the citizen's viewpoint, the existing treatment of motor vehicles acts as evidence that we are a long way from a true single market. Prospective purchasers find that the tax systems in some Member States can have a significant impact on the tax-exclusive price of cars. Moreover, the treatment of individuals moving, either temporarily or permanently from one Member State to another with their cars can, in some cases, be more restrictive now than prior to 1993. From the motor industry viewpoint, the wide differences in tax systems have a negative impact on traders' ability to extract the alleged benefits of operating within a single market.

1.5. Apart from its role as an important source of revenue, vehicle taxation is also being turned to as a potential instrument to advance other policy objectives, both at national level and, increasingly, at Community level. During 1995, 1996 and 1997, the Commission adopted documents relating to a number of policy areas where fiscal measures affecting vehicles were identified as having a potential role. These include Communications on CO2 Emissions and Passenger Cars[1]and on the Auto Oil Programme[2], the White Paper on Energy Policy[3] and a Green Paper on Fair and Efficient Pricing in Transport[4]. The Commission also put forward a new proposal for a new approach on taxation of energy products.[5] Given that, on the one hand, there are several policy areas where vehicle taxation may be relevant and, on the other hand, there is a complex interaction between the different types of instruments used in any Member State, a comprehensive and coherent approach to the subject is needed.

1.6. As a result, the Commission Services decided to carry out a review of the whole area of taxation affecting vehicles and motoring.. To assist in this task, the Commission Services issued a questionnaire to each Member State, asking for details of the tax instruments applied. The questionnaire also inquired about the policy objectives being pursued in each State.

1.7. This document identifies in general terms the various instruments available to Member States. Using the replies to the questionnaire, complemented where appropriate by other sources, it goes on to describe the actual systems as of 1 January 1997 implemented in each Member State. It also attempts to highlight the various policy objectives being pursued at national level. Finally, it provides an overview of current action at Community level which is relevant to vehicle taxation.

1.8. The document is focusing on indirect tax measures and does therefore not include measures like taxation of the benefits of a company car or deduction of commuting expenses in the income declaration. Neither is the different approach to parking fees included in the report.

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1 A Community strategy to reduce CO2 emissions from passenger cars and improve fuel economy, COM (95) 689 final

2 Communication From the Commission to the European Parliament and the Council on a Future Strategy for the Control of Atmospheric Emissions from Road Transport Taking into Account the Results from the Auto Oil Programme, COM (96) 248 final

3 An Energy Policy for the European Union,. COM (95) 682

4 Towards Fair and Efficient Pricing in Transport: Policy options for internalising the external costs of transport in the European Union, COM (95) 691 final

5 Proposal for a Council Directive restructuring the Community Framework for the Taxation of Energy Products, COM(97) 30 final.

2. TYPES OF TAX INSTRUMENT.

2.9. The various tax instruments available can be divided into three broad categories. Firstly, there are taxes associated with the acquisition, purchase or registration of a vehicle, for example VAT and registration taxes. The second category covers taxes payable in connection with possession or ownership of a vehicle, such as circulation taxes and insurance taxes. The third category consists of taxes directly or indirectly related to the use of vehicles, including fuel taxes and road tolls.

2.10. Motor vehicles are subject to *Value Added Tax (VAT)* in each Member State under the general Community VAT rules. In addition, special rules were introduced from 1 January 1993 to ensure that intra-Community acquisitions of new vehicles are subjected to VAT in the country of destination. For this purpose, "new" vehicles are defined to cover vehicles which have travelled less than 6,000 kilometres or which have been in service for less than six months[6]. Furthermore, there are special rules to ensure a consistent approach to the VAT treatment of commercial intra-Community transactions of second-hand vehicles[7]. Member States have different approaches to the question of deduction of input VAT. Whilst this is generally available for commercial vehicles, some Member States do not allow deduction for passenger cars. Other Member States allow partial deduction (e.g. an arbitrary figure such as 50%, or a figure calculated according to the extent of professional use of the car), and some allow full deduction.

2.11. *Registration (or similar) taxes* are normally payable in advance of, or at the time of, registration of a vehicle. They are normally charged only once, at the time of first registration, though in one Member state a new charge arises on each change of ownership. Apart from the requirement that they must not rely on frontier controls, these taxes are not subject to any common rules in the Community.[8] A variety of possible methods of calculation exist. The tax may be charged by reference to the value of the vehicle, according to some measurement such as horsepower, engine cubic capacity, emission levels, or a combination of factors. Normally the registration plates and/or documentation will not be issued until the tax has been paid or guaranteed. Irrespective of the method of calculation used, the amount of tax payable on a used vehicle will typically decrease in line with the vehicle's age. Various types of vehicle may be exempted from the tax, either on the basis of their physical characteristics or on the nature of use to which they are put. In this context it is useful to distinguish between taxes and fees. Registration taxes are normally levied for fiscal reasons and

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6 Article 28c (A)(b) of the 6th VAT Directive 77/388/EEC of 17 May 1977 as last amended by Council Directive 91/680/EEC of 16 December 1991.

7 The 7th VAT Directive 94/5/EEC of 14 February 1994.

8 However, Article 3 of Directive 94/12/EEC stipulates that Member states are not allowed to use fiscal incentives to encourage the marketing of vehicles with emissions performances better than those required under the set Directive. For more information see paragraph 7.4.

thus the level of taxation can be substantial. Registration fees, by contrast, are levied to cover the cost of the operation of national vehicle registers.

2.12. *Circulation taxes* are charged on a periodic basis, and usually confer the right to use the public road network. In the case of heavy goods vehicles, they must comply with the provisions of Directive 93/89/EEC[9], which sets minimum rates etc. For other vehicles, there is no Community legislation in this area.[10] These taxes are also charged according to various criteria, such as engine capacity, horsepower, fuel type, region of registration etc. In some cases, the age of the vehicle is taken into account. They are often controlled by means of a windscreen sticker, or vignette.

2.13. *Motor insurance premium taxes* are usually charged as a percentage of the amount paid to insure the vehicle. In some cases it takes the form of a general tax on all insurance premiums, but may equally be specific to motor insurance. Similarly, certain vehicles may qualify for reduced rates or exemption.

2.14. *Fuel taxes* are normally charged on motor fuels by reference to the quantity of product released for consumption. The Community excise system[11] provides minimum rates of excise duty which Member States must respect. It also provides that Member States must apply only one rate of duty to each product category (unleaded petrol, leaded petrol, diesel etc.) and the rate of duty on leaded petrol must be higher than that on unleaded petrol. Derogation to depart from the general principles are possible under an agreed procedure. The duty is charged as a specific amount per quantity of product. Some Member States charge additional fuel taxes for environmental objectives. In these cases, the duty is often calculated indirectly as a function of the level of harmful emissions such as carbon dioxide, sulphur, etc.

2.15. *Tolls* are charged in some Member States as a means of recovering infrastructure costs. They can be charged as a fixed amount or as a function of the distance travelled. It is also possible to have a periodic payment system, which allows unlimited use of the network for the period in question. Directive 93/89/EEC governs the use of toll charges for heavy goods vehicles. It also provides for the introduction

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9 Council Directive 93/89/EEC of 25 October 1993 on the application of taxes on certain vehicles used for the carriage of goods by road and tolls and charges for the use of certain infrastructure. On 13 November 1996 the Commission adopted a new proposal for a directive, intended to replace Directive 93/89, which was annulled by the European Court of Justice on 5 July 1995. In accordance with the judgement of the Court, the effects of the annulled Directive have been postponed until new legislation is adopted. No agreement has so far been reached in the Council on the new proposal.

10 As for footnote 7.

11 - Council Directive 92/12/EEC of 25 February 1992 on the general arrangements for products subject to excise duty and on the holding, movement and monitoring of such products.

- Council Directive 92/81/EEC of 19 October 1992 on the harmonization of the structures of excise duties on mineral oils.

- Council Directive 92/82/EEC of 19 October 1992 on the approximation of the rates of excise duties on mineral oils.

of road user charges, such as the "*Eurovignette*" system currently operated by five Member States.[12] This system involves payment of a sum which allows access to the motor way network in five Member States, and provides for distribution of the revenue between the five countries.

2.16. *Special schemes to promote the scrapping of old cars* are or have been used in some Member States to promote replacement of old cars with new, less polluting cars. Normally these schemes are temporary and involve a tax reduction on the purchase of a new car when an old car is scrapped.

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12 Sweden is due to join the system under 1998.

3. MOTOR VEHICLE TAXATION IN THE MEMBER STATES

3.1: An overview of the different systems applied in each Member State is contained in the following pages. This information is mainly drawn from the replies to the questionnaire issued to Member State administrations. Table 3.1 gives a broad overview of motor vehicle related taxes applied in the Member States. Detailed description of motor vehicle taxation in Member States are provided in separate country notes in annex A. Tables allowing for quick comparison of the different tax systems and the tax rates applied in Member States are set out in Annexes B and C. Information on revenue from vehicle taxation in the Member States is provided in Annex D and statistics on car production, car sales and car fleets within the Union is provided in Annex E.

Table 3.1 Vehicle related taxes in Member States as of 1 January 1997

Member State	Taxes on acquisitions			Taxes on ownership		Taxes on motoring		
	VAT on purchase of cars	Reg. tax	Reg. fee	Circulation tax	Tax on motor insurance premium	Excise duty on motor fuels+ VAT	Tolls on roads or bridges	Euro-vignette system
Belgium	*	*	*	*	*	*		*
Germany	*		*	*	*	*		*
Denmark	*	*	*	*	*	*	*	*
Spain	*	*	*	*	*	*	*	
Greece	*	*		*	*	*	*	
France	*	*		*	*	*	*	
Italy	*	*	*	*	*	*	*	
Ireland	*	*		*	*	*	*[13]	
Luxembourg	*		*	*	*	*		*
Netherlands	*	*	*	*	*	*		*
Austria	*	*		*		*	*	
Portugal	*	*	*	*		*	*	
Finland	*	*		*	*	*		
Sweden	*	*	*	*		*	*	
United Kingdom	*			*	*	*	*	

[13] Tolls applied so far are private charges rather than taxes.

3.1 Taxes on acquisitions

3.2. All Member States levy VAT on acquisitions under the general Community VAT regime with rates varying between 15 and 25 per cent of the price excluding VAT. Restrictions to taxable persons right to deduct VAT paid on the purchase of passenger cars for professional use apply in some Member States. In Sweden, Finland, Austria, Portugal, Greece and Ireland the registration tax is part of the tax base for VAT.

Table 3.2 VAT rates on acquisition of motor vehicles and motor fuels

Member State	VAT rates in per cent			
	Motor vehicle	Motor Fuel Diesel	Unleaded petrol	Leaded petrol
Belgium	21,0	21,0	21,0	21,0
Denmark	25,0	25,0	25,0	25,0
Germany	15,0	15,0	15,0	15,0
Spain	16,0	16,0	16,0	16,0
France	20,6	20,6	20,6	20,6
Greece	18,0	18,0	18,0	18,0
Ireland	21,0	21,0	21,0	21,0
Italy	19,0	19,0	19,0	19,0
Luxembourg	15,0	15,0	12,0	15,0
Netherlands	17,5	17,5	17,5	17,5
Austria	20,0	20,0	20,0	20,0
Portugal	17,0	17,0	17,0	17,0
Finland	22,0	22,0	22,0	22,0
Sweden	25,0	25,0	25,0	25,0
United Kingdom	17,5	17,5	17,5	17,5

3.3. In addition to VAT most Member States apply some form of tax payable at the time of registration of a vehicle into the national vehicle register. Registration taxes with a revenue raising function are levied in twelve Member States, see table 3.1. In Germany and Luxembourg an administrative fee is levied at the time of registration. The United Kingdom levies neither registration tax nor fee. Registration taxes are normally only charged at the time of first registration in the national vehicle register. In Belgium and Italy, however, the registration tax is also levied on each change of ownership. In addition to registration taxes some Member States also levy a registration fee payable on registration with the national car register. Registration taxes tend to be focused on passenger cars and Member States who levy such taxes therefore apply reduced rates or exemptions for commercial vehicles such as buses and vehicles for goods transport. However, it can be noted that Sweden levies a registration tax on all vehicles except passenger cars. Table 3.3 gives an overview on the different treatment of vehicles in countries where registration taxes are levied.

Table 3.3: Registration taxes in Member States, type of vehicles taxed

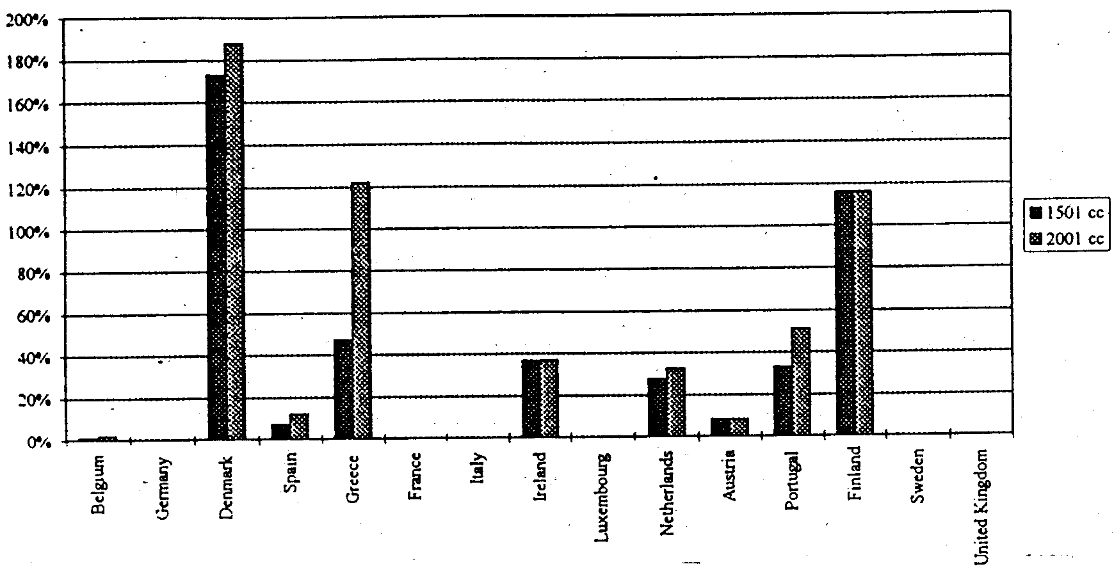
Member States	Passenger cars	Motor cycles	Buses > 9 passengers	Heavy goods vehicles, > 12 tonne
Belgium	yes	yes	no	no
Denmark	yes	yes	yes	no
Spain	yes	yes	no	no
Greece	yes	yes	yes	yes
France	yes	yes	yes	yes
Italy	yes	yes	yes	yes
Ireland	yes	yes	yes	yes
Netherlands	yes	yes	no	no
Austria	yes	yes	no	no
Portugal	yes	yes	no	no
Finland	yes	yes	no	no
Sweden	no	yes	yes	yes

N.B: Registration tax is not levied in the United Kingdom, Germany and Luxembourg.

3.4. The calculation of a registration/sales tax can depend not only on the value of the vehicle but also on weight, size of the motor, fuel consumption or if it is a diesel or petrol driven car. Tax schemes vary from those based strictly on value in Denmark and Finland to more sophisticated taxes. For example, in Austria the amount of tax is dependent on the average fuel consumption of the vehicle. The Netherlands applies a system with a value-based tax but where the amount of tax is adjusted in order to penalise diesel driven cars. In France the registration tax is a local tax in so far as the rate is set by the provinces which also have the use of the revenue. The Italian registration tax is also partly a local tax. Annex B provides an overview of the different methods of calculation applied in Member States.

3.5. Member States apply not only different methods of calculation but also different levels of taxation. Chart 3.1 presents the level of registration tax for two different sizes of petrol driven passenger cars, with a motor size of 1501 and 2001 cc. The level of registration tax on new passenger cars ranges between 0 to 200 % of the car price excluding taxes. The highest level of taxation on new cars can be found in Denmark, Greece, Finland and Portugal. However, in Greece the tax rate on used cars can be as high as 460 %. The lowest level of taxation can, of course be found in Member States where only VAT is levied on new cars. As can be seen in chart 3.1 Member States which apply registration taxes tend to levy them in such a way as to favour cars with smaller engines.

Chart 3.1 Level of registration taxes (excluding VAT) in Member States December 1996, expressed as a percentage of net price (price excluding all taxes).



Note: France and Italy also levy registration taxes but no information is available on the relation to net prices.

Source: ACEA (1997)

3.6. There is a wide spread in consumer prices of passenger cars between Member States. This is not very surprising given the different level of registration taxes applied in Member States. In a recent price comparison made by the Commission it was shown that for 43 of the total of 75 models examined, tax-exclusive prices differ within the Community by more than 20 %.[14] Furthermore, it should be noted that the three highest taxing Member States, Denmark, Finland and Greece were not included in the study. Although some of the differences in consumer prices would probably be explained by factors like market structure and consumer preferences, it cannot be excluded that widely different tax regimes have some impact on the setting of tax-exclusive prices.

3.2 Taxes on ownership

3.7. Two broad types of taxes have been identified on ownership. These are circulation taxes and taxes on motor vehicle insurance premiums.

3.8. An annual circulation tax is levied in all Member States. The taxes are levied both on passenger cars and commercial vehicles. On passenger cars they may take the form of a flat rate tax like the British Vehicle Excise Duty of £ 145 per annum, but

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14 Car prices within the European Union on 1 May 1997, Directorate-General IV, Commission of the European Communities

normally they are levied in a way where the amount of tax is related to certain characteristics, such as engine capacity, vehicle weight, size of the motor or age of the vehicle. In some Member States (Sweden, Belgium, Denmark, Finland) diesel driven cars face a higher circulation tax than petrol driven cars, often to compensate for the fact that diesel generally faces a lower excise duty than petrol. However, in France diesel driven cars face a lower circulation tax than petrol driven cars. In some countries (Belgium, Italy, Portugal and Spain) the annual circulation tax is a local tax, either in the sense that all or some of the revenues accrue to local governments, or that the tax level is to some aspect determined at a local level (Italy, Spain).[15] In other countries like France, Sweden, the Netherlands the tax rate also differs depending on the region of registration, even though the revenue itself is part of the Central Government budget.

3.9. The highest level of circulation taxes on passenger cars can be found in Denmark, the Netherlands and Ireland. The amount of circulation tax due on a large petrol driven car of, say, 2 000 cc in motor size ranges from just below 100 to 884 ECU per year.

3.10. In most countries annual circulation taxes for the use of commercial vehicles differ from those for private passenger cars. There is a large difference in the level of taxation on heavy goods vehicles in the Community, where the highest level of taxation can be found in the United Kingdom. Some Member States have a derogation allowing them to apply tax rates below the Community minimum rate laid down in Directive 93/89/EEC, whilst other Member States apply tax rates 10 times higher than these minimum rates.

3.11. Most Member States also levy an excise duty on the mandatory traffic insurance required by drivers. In some Member States this is part of a general tax on insurance premiums, whereas in other the tax is only levied on motor insurance premiums and not on other insurance premiums. The highest taxing country is Denmark with a tax rate on insurance premiums on passenger cars of 50 % of premium paid.

3.3 Taxes on motoring

3.12. Taxes on motoring are levied in the form of motor fuel taxes and road toll systems.

3.3.1 Fuel taxes

3.13. Motor fuel is generally subject to a number of different taxes, including VAT, excise taxes, storage and security levies, and environmental taxes. Most Member States apply the standard VAT rate to motor fuels ranging from 15 % (Germany) to 25 % (Sweden and Denmark), see table 3.2. However, Portugal applies a reduced rate of

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15 In Ireland proposals are currently at an advanced stage to allocate all motor tax collected to local government (at present allocated to central government). The new legislation will also empower individual local authorities to impose a local levy on top of the rate of motor tax set by central government.

5 % on diesel and Luxembourg applies a reduced rate on unleaded petrol at 12 %. In general VAT is only borne by private consumers, since commercial operators who are registered for VAT can normally claim an input deduction. This deduction normally is equal to 100 per cent of the tax. However, in some Member States it is only partial.

3.14. Leaded petrol must under Community law be subject to a higher excise duty than unleaded petrol. Furthermore the tax rate on diesel is normally lower than on petrol, reflecting the fact that diesel is the main source of fuel used by commercial vehicles. The only exception is the United Kingdom where diesel is taxed at the same rate, expressed in volumetric terms, as unleaded petrol. Measured in relation to energy content the UK still treats diesel more favourable than unleaded petrol. Sweden and Finland differentiate the excise duty on diesel and petrol according to environmental criteria. Furthermore, the United Kingdom, Greece and Ireland, apply tax differentials on unleaded petrol according to octane content, also for environmental reasons. Denmark operates a system with reduced excise duty rates when petrol is sold from stations equipped to recycle petrol fumes. These differentials have been authorised under the terms of Article 8(4) of Council Directive 92/81/EEC. The United Kingdom is in the process of introducing a lower rate on ultra low sulphur diesel.

Table 3.4: Excise duties on motor fuel, as of January 1997, ECU[16]

Member State	Leaded petrol 1 000 litres	Unleaded petrol 1 000 litres	Diesel 1 000 litres	LPG tone	CNG/methane[17] tone
EC MINIMUM	337	287	245	100	100
AUSTRIA	482	416	291	262	64*
BELGIUM	569	510	292	0*	0*
DENMARK[18]	530	447	308	353	89
Finland[19]	613	536	310	0*	14*
FRANCE	617	576	358	123	143
GERMANY	556	505	321	314[20]	388[21]
GREECE	415	363[22]	252	105	105
IRELAND	440	395	343	152	0*
ITALY	580	534	390	312	0*
LUXEMBOURG	402	349	254	102	0*
NETHERLANDS[23]	597	531	320	51*	57*
PORTUGAL	503	469	327	103	103
SPAIN	396	363	264	776	776
SWEDEN	566	503[24]	298[25]	300	404
UNITED KINGDOM	567	501[26]	501	288	288
LOWEST TAX RATE	396	349	252	0	0
HIGHEST TAX RATE	617	576	501	776	776
DIFFERENCE	221	227	249	776	776

* Reduced rates or exemption that have been granted under the provisions of Article 8(4) of 92/12/EEC.

16 Exchange rates as of 27 January 1997

17 Density used for natural gas is 0,7 kg/m3.

18 Excise duty on petrol reduced with ECU 4 per 1 000 litres when sold from gas stations equipped for recycling petrol fumes. Excise duty reduced with ECU 13 per 1 000 litres for light diesel oil fulfilling certain environmental criteria.

19 Excise duty reduced with ECU 9 per 1 000 litres for reformulated petrol. Reduced rate at ECU 284 per 1 000 litres applies for light diesel oil fulfilling certain environmental criteria.

20 Reduced rate at ECU 124 per tonne when used in public transport vehicles.

21 Reduced rate at ECU 152 per tonne when used in public transport vehicles.

22 Unleaded petrol with octane grade higher than 96,5 is taxed at ECU 393 per 1 000 litres.

23 Total level of indirect taxation, including excise duty, cova-lvy, environmental tax.

24 A reduced tax rate at ECU 494 per 1 000 litres applies on unleaded petrol fulfilling certain environmental criteria.

25 The excise duty on diesel oil is differentiated in three classes. The tax rate in the table applies to urban area diesel (class 1), which has almost 100 % of the market. Diesel of to environmental class 2 and 3 (standard diesel) are taxed at ECU 322 and 355 per 1 000 litres

26 Super unleaded petrol is taxed with ECU 548 per 1 000 litres.

3.15. Besides VAT and excise taxes, motor fuels are also subject to a number of special taxes in different Member States. These include related taxes such as Carbon taxes (Sweden, Denmark, Netherlands and Finland); Fuel storage taxes (Finland, the Netherlands and Germany) and taxes to fund different industrial activities (France, Belgium). Table 3.4 gives the total level of indirect taxation (excluding VAT) on diesel, petrol, natural gas and LPG applied in Member States.

3.16. There is a large difference in the level of taxation on motor fuels. On leaded petrol, unleaded petrol and diesel the tax difference is between 220 and 250 ECU per 1000 litres. On natural gas and LPG the gap is even wider, with a difference as large as 776 ECU per tonne.

3.17. The highest tax rates on leaded petrol can be found in France, Finland, the Netherlands and Italy. The lowest levels are in Spain, Luxembourg and Greece. However, all Member States apply a total level of taxation on unleaded petrol well above the Community minimum rate of 337 ECU per 1000 litres.

3.18. On unleaded petrol the situation is similar. The highest tax rates can be found in France, Finland, Italy and the Netherlands. Luxembourg, Spain, Greece and Ireland apply the lowest rates. However, all Member States apply a total level of taxation on unleaded petrol well above the Community minimum rate of 287 ECU per 1000 litres.

3.19. The situation is somewhat different for diesel. The United Kingdom has the highest level of taxation, with more than 100 ECU per 1000 litres higher than Italy and France who apply the second highest tax rate. The lowest level can be found in Greece, Luxembourg and Spain where the tax levels are just above the Community minimum rate of 245 ECU per 1000 litres.

3.20. Concerning natural gas and LPG a large number of Member States exempt or levy a reduced rate of excise duty on these products when used as motor fuel. These exemptions have been granted under the provisions of Article 8(4) of 92/81/EEC.

3.21. Under Community law any product intended for use, offered for sale or used as motor fuel, or as an additive or extender in motor fuels, shall be taxed as motor fuel. That is, biofuels used as a propellant should be taxed with the same rate as the equivalent fuel it replaces. However, Member States have the option to apply partial exemptions or reduced rates in the field of pilot projects for the technological development of more environmentally friendly products. [27] A number of Member States have used this option to give special treatment to biofuels used as a propellant. It can be noted that Member states have different opinions on the environmental benefit from biofuels used as motor fuel. Some Member States argue that they are good for the environment, while others see no benefits of the use of biofuels in transport sector. So far biofuels are only used in small scale projects and their market share of the total fuel consumption are far below 1 %.

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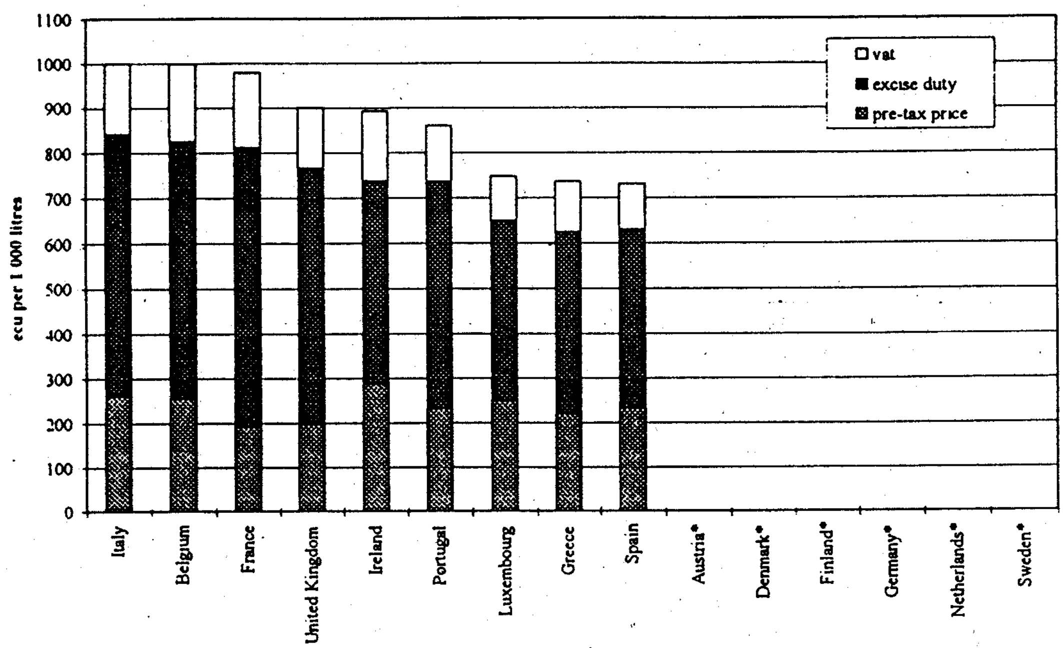
[27] Aricle 8 (2)(d) of Directive 92/81/EEC

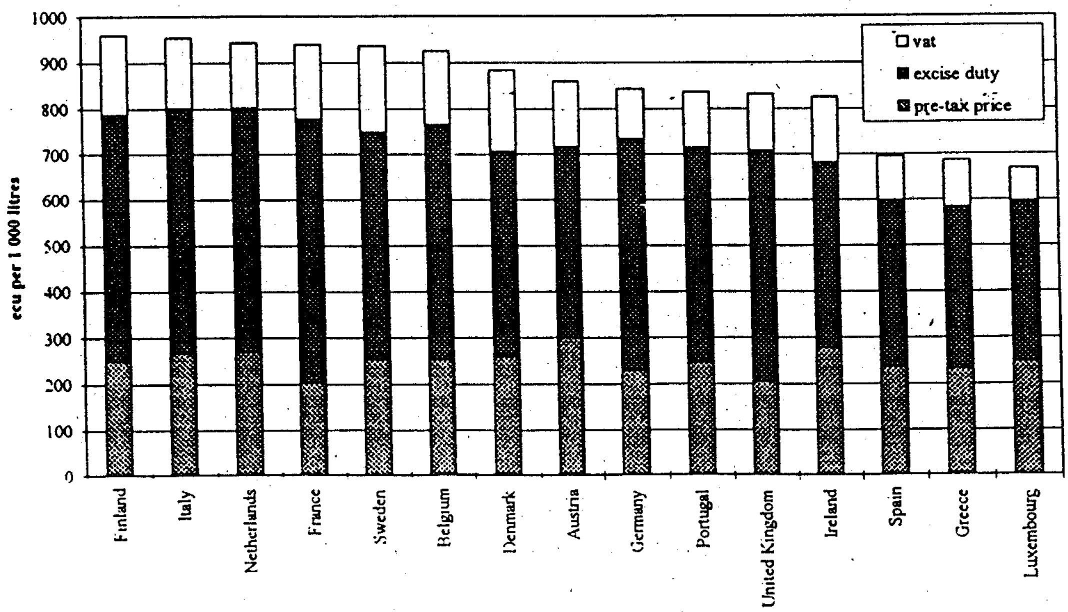
3.22. The difference in excise duties on motor fuels is much larger than the difference in VAT rates. Since taxes on motor fuel have a large impact on fuel prices a wide spread in tax levels creates a corresponding large divergence in consumer prices between Member states. The tax incidence in the retail price of leaded petrol, unleaded petrol and diesel are presented in the charts below.

Chart 3.2 Tax incidence in retail price of leaded petrol, January 1997



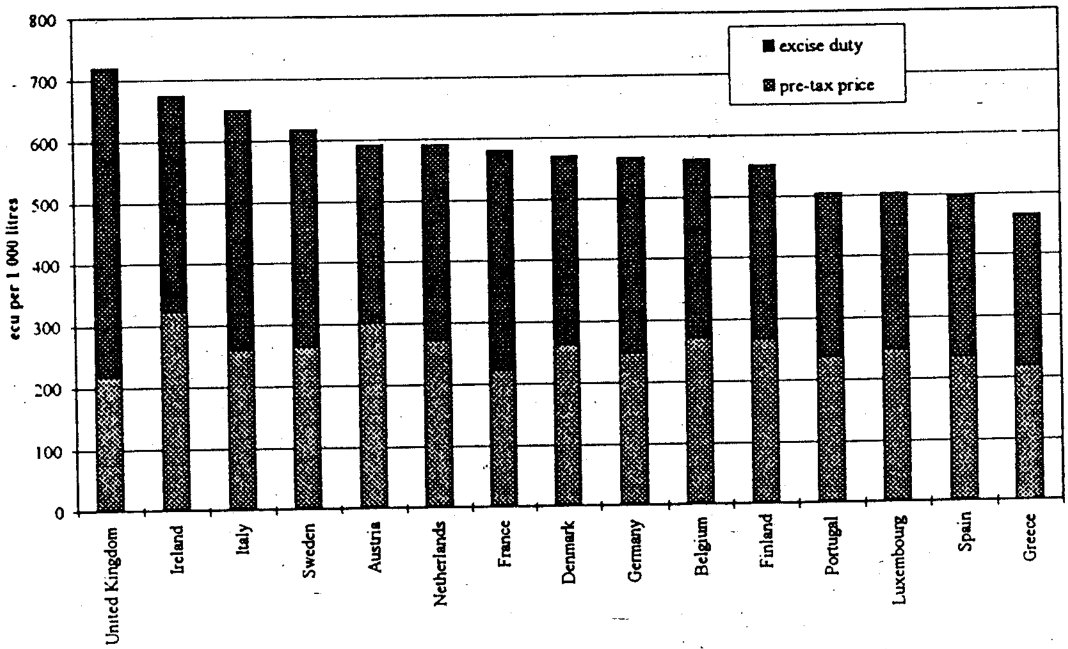
* Leaded petrol not on sale in those countries.

Chart 3.3 Tax incidence in retail price of unleaded petrol, January 1997



3.23. Chart 3.2 illustrates current consumer prices of leaded petrol. The highest price can be found in Italy, Belgium and France. Consumer prices are at the lowest level in Spain, Greece and Luxembourg. It should be noted that the petrol market in Austria, Finland, the Netherlands, Germany, Denmark and Sweden is in principle made up by unleaded petrol. Chart 3.3 shows current consumer prices of unleaded petrol. The highest consumer price can be found in Finland, Italy, the Netherlands and France. The lowest levels in Luxembourg, Greece, Spain and Ireland.

Chart 3.4 Tax incidence in retail price of diesel for commercial operators, January 1997

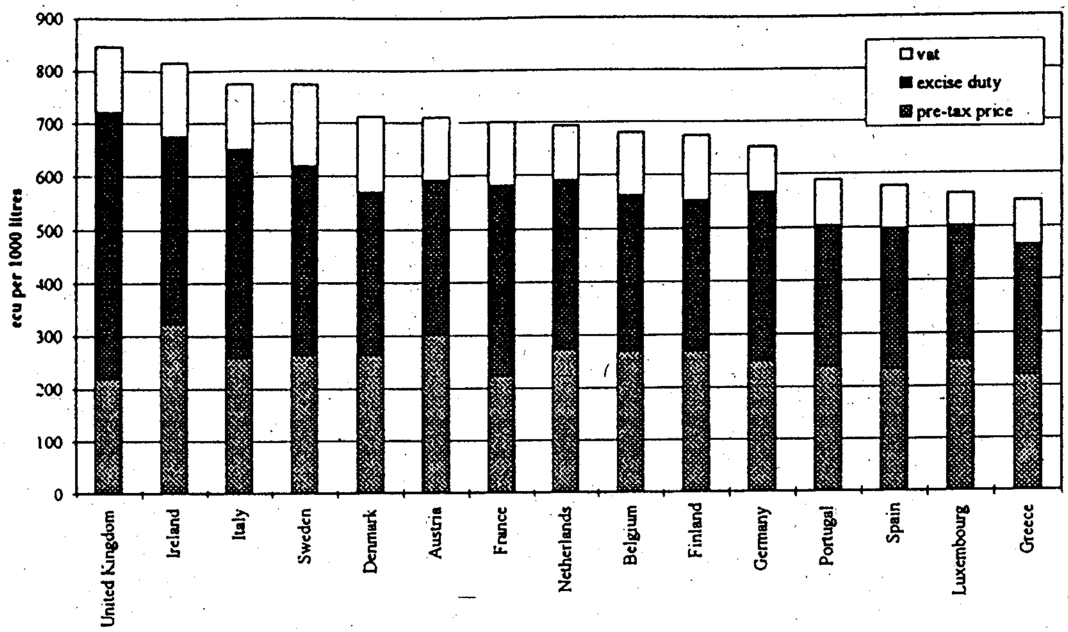


3.24. Diesel fuel is pre-eminently used by the commercial sector and in most Member States such users are allowed to deduct VAT on motor fuel. Therefore chart 3.4 presents current retail price excluding VAT. Caution is required when comparing prices on diesel. Large consumers normally purchase their fuel direct from the producer at a price that can differ significantly from retail prices given in chart 3.4. The highest price for diesel can be found in the United Kingdom, Ireland, Italy and Sweden.The lowest level is in Greece, Luxembourg and Spain.

3.25. Differences in consumer prices on petrol and diesel within the Community depend on both differences in pre-tax prices and levels of taxation. Differences in net prices could be explained by different market structures and national regulations, e.g. environmental regulations. The pre-tax price on low sulphur diesel is normally higher than on standard diesel.

3.26. In order to get the price for private consumers we need to add VAT to the price. Chart 3.5 show prices for private consumers of diesel.

Chart 3.5 Tax incidence in retail price of diesel for private consumers, January 1997



3.3.2 Road tolls

3.27. In addition to fuel taxes most Member States levy some form of user charge on road traffic. Some Member States levy tolls for the use of motor ways, where the user pays in relation to mileage driven (France, Italy, Portugal, Spain, Greece and Austria). In Sweden, the United Kingdom and Denmark fees are levied on certain bridges. Some countries also operate a system of special user charges for heavy goods vehicles. As of 1 January 1995 an integrated toll system known as "the Eurovignette" has been operated jointly by the Netherlands[28], Belgium, Germany, Luxembourg and Denmark for heavy goods vehicles with a maximum vehicle weight exceeding 12 tons. The user charge is based on the time during which the infrastructure network is used. Belgium, Denmark and Luxembourg apply only annual rates (two levels depending on the number of the vehicle's axles) for vehicles registered in their territory, whereas Germany and the Netherlands also have monthly, weekly and daily vignettes. The same system (two categories of vehicles and four time periods) applies to all vehicles not belonging to the Member States subscribing to the common system. The system is operated in accordance with Directive 93/89/EEC. Sweden is due to join the integrated Eurovignette system in 1998. Austria operates a similar user charge system on a national basis.

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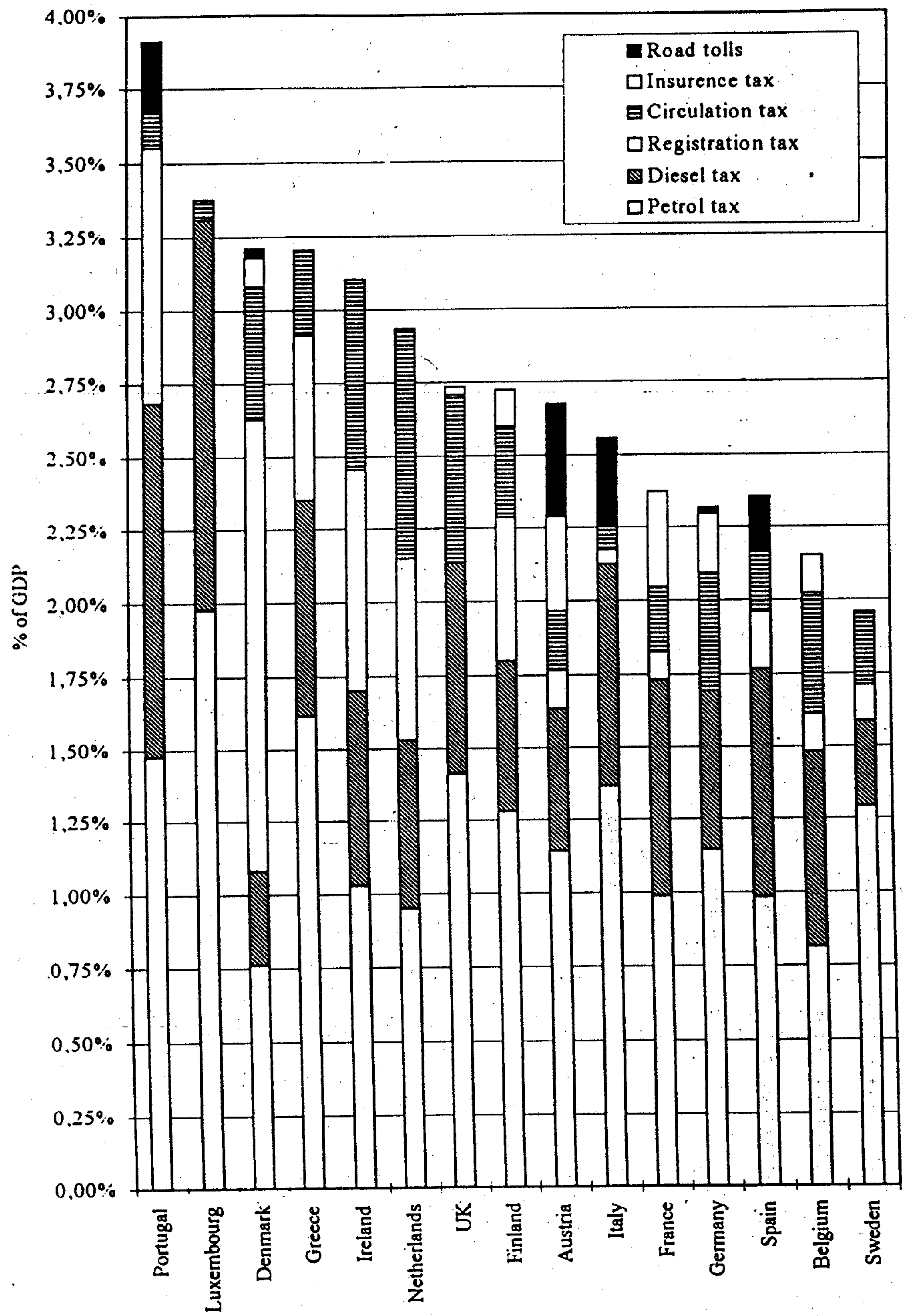
[28] The Netherlands joined the system in 1996 and Sweden is due to join in 1998.

3.4 Revenue from motor vehicle taxation

3.28. Taxes on motoring have a long standing tradition in Member States. The importance of vehicle taxation for each Member States economy can be described by relating revenue to GDP as in chart 3.6. In this context vehicle related tax revenue is taken as all indirect taxes other than VAT. The reason for that being that VAT is a general consumption tax levied on acquisitions of all goods and services and not exclusively on vehicles and motor fuels. It should also be noted that some information is missing in the comparison of tax receipts in chart 3.6 and 3.7. For further details see footnote 29 and 30.

3.29. For 1995 vehicle taxation in Member States amounts to somewhere between 2,0 and 3,75 per cent of GDP. Portugal and Luxembourg being the countries with the highest percentage and Belgium, Spain and Sweden with the lowest.

Chart 3.6 Vehicle tax receipts as a percentage of GDP 1995[29]



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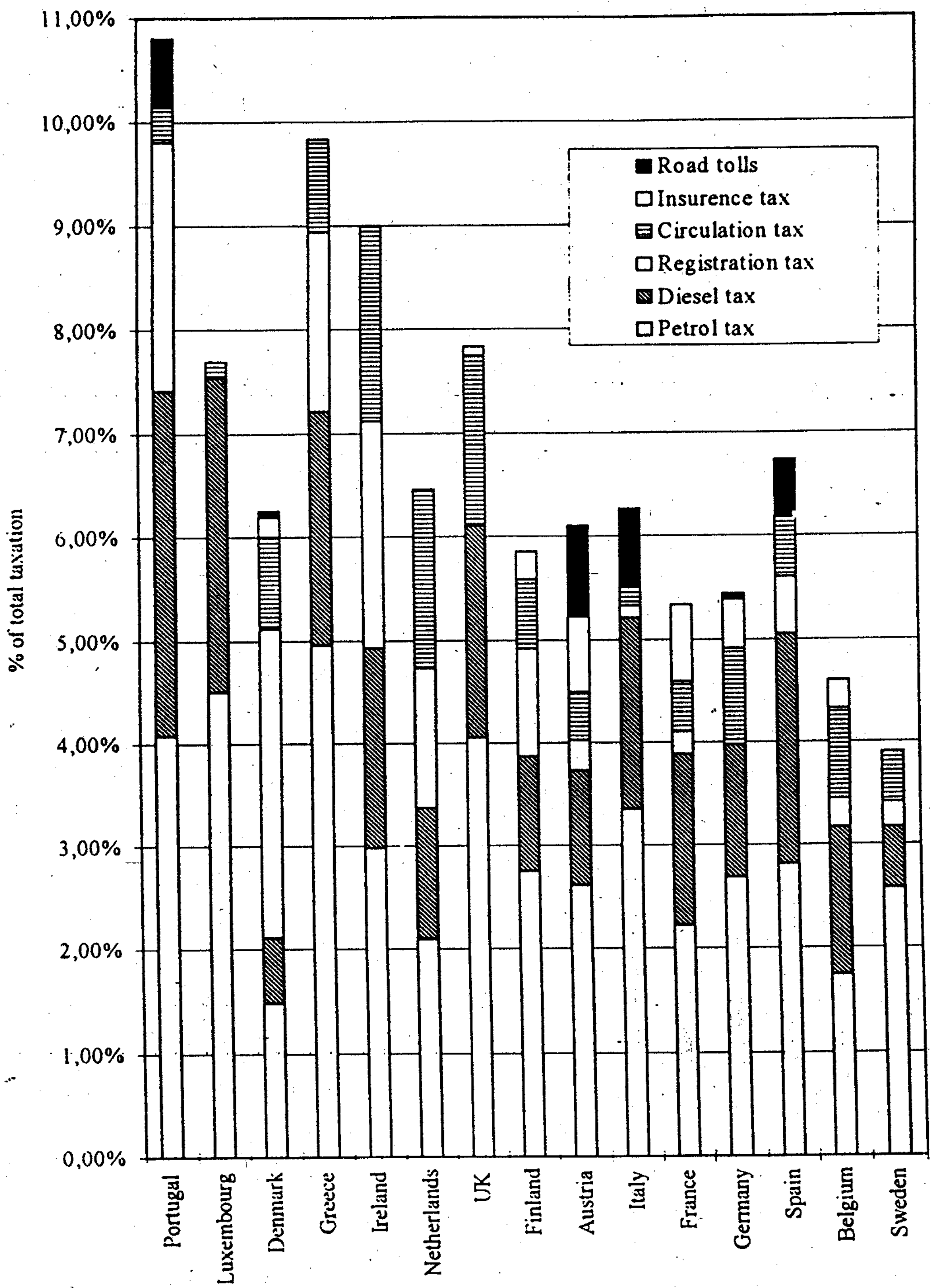
29 Information on revenue from road tolls in France, Belgium, Luxembourg, Greece is missing. Information on revenue from tax on motor insurance premium is also missing for UK, Finland, Portugal, Netherlands, Luxembourg, Ireland, Italy,Greece.

3.30. The composition of vehicle tax receipts expressed as a percentage of GDP also differs between Member States. The difference is especially large for registration taxes. While Denmark raises almost 1,5 per cent and Portugal almost 1 per cent of GDP some Member States collect no registration taxes at all. It should be noted that a high percentage of GDP is not the same as high tax rates. This can be exemplified by the case of Luxembourg, where taxes on motor fuels are among the lowest in the Union. Still the revenue from fuel excise duties amount to almost 3,5 % of GDP, which is significantly higher than in any other Member State. One explanation for this is that a large share of diesel and petrol purchases in Luxembourg are made by consumers from neighbouring countries with higher fuel taxes, and consequently higher fuel prices.

3.31. The importance of vehicle taxation as a revenue raiser in different Member States can be shown by relating the revenue from such taxes to public sector income from total taxation (including social security contributions). Dependence on vehicle related taxes ranges between 4 and 10 % of total taxation. Greece and Portugal are the Member States which are most dependent, with more than 10 % of their revenue arising from vehicle taxation. Further information on revenue from vehicle related taxation is given in annex D.

Chart 3.7 Vehicle tax receipts as a percentage of total taxation 1995[30] (incl. social security contributions), General government

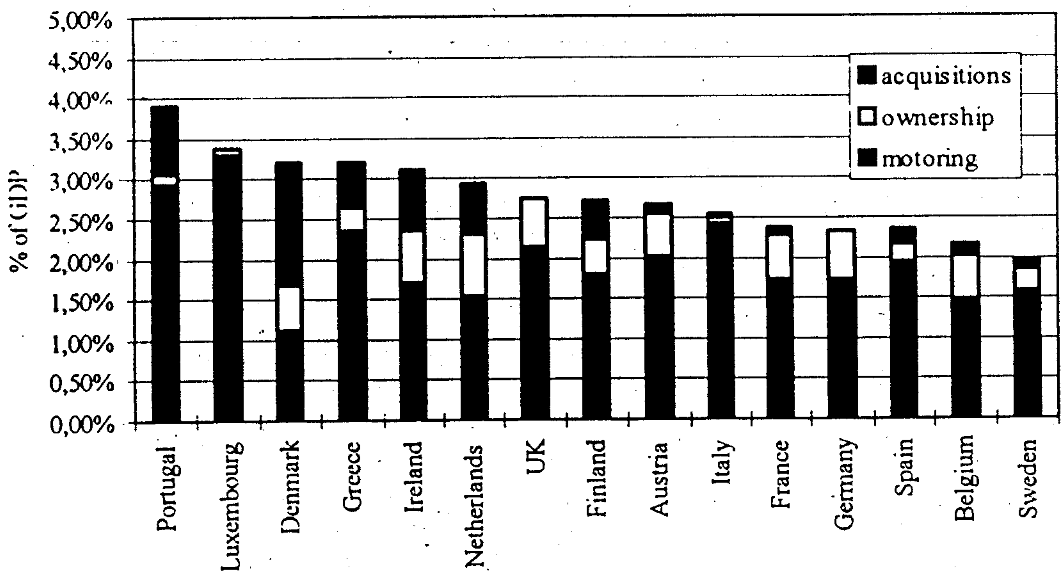


30 Information on revenue from road tolls in France, Belgium, Luxembourg, Greece is missing. Information on revenue from tax on motor insurance premium is also missing for UK, Finland, Portugal, Netherlands, Luxembourg, Ireland, Italy,Greece.

3.32. The composition of vehicle tax receipts can also be presented in a somewhat different way than is done in chart 3.6 and 3.7. In chart 3.8 receipts are merged into three sub-groups: taxes on acquisitions (registration taxes and taxes on plates, VAT is not included); taxes on ownership (circulation taxes and taxes on insurance premiums) and finally, taxes on motoring (motor fuel taxes and road tolls).

3.33. As can be seen in chart 3.8 revenue from taxes on motoring makes up significantly more than 50 % of total revenue from vehicle taxation. However, the composition differs widely. On the one hand, in Denmark revenue from motoring makes up only 33% of the total revenue and in the Netherlands around 50 %. On the other hand, in Luxembourg and Italy almost 100 % of the revenue from vehicle taxation accrues from taxes on motoring.

Chart 3.8 Vehicle tax receipts as a percentage of total taxation 1995



3.5 Car scrapping schemes

3.34. Special schemes to promote the scrapping of old cars have been or are applied in some Member States (Italy, Ireland, Greece, France, Spain and Denmark). In most cases the schemes were temporary, and involved a tax reduction or refund of tax on the purchase of a new car when an old one was scrapped, with the aim being environmental improvements as well as boosting the car industry. In the Netherlands, a charge is imposed on new car purchases, which covers the cost of scrapping vehicles. In Sweden, a charge is imposed on new car purchases, and a corresponding rebate made when the car is scrapped, with the intention of promoting scrapped cars to be handed over to authorised auto wreckers.

4. POLICY OBJECTIVES AT NATIONAL LEVEL - OTHER THAN REVENUE

4.1. The replies to the questionnaire show that a variety of objectives are being pursued by Member States, beyond the obvious goal of *raising revenue*: environmental, geographic, industrial, social, energy, income distribution, and transport policy have a bearing on different types of approaches in Member States. Most Member States take into account a number of policy considerations when setting tax rates. This section highlights a few examples from the questionnaires. A more detailed description of each Member State's system is given in separate country notes in annex A.

Table 4.1 Policy objectives pursued in Member States

Member State	Revenue	Environment	Transport & Industrial	Geographic	Social	Funding local Government
Belgium	*	*	*		*	*
Germany	*	*	*		*	
Denmark	*	*	*		*	
Spain	*	*	*	*	*	*
Greece	*	*	*		*	
France	*	*	*	*	*	*
Italy	*	*	*	*	*	*
Ireland	*	*	*		*	(*)[31]
Luxembourg	*	*	*		*	
Netherlands	*	*	*	*	*	
Austria	*	*	*		*	
Portugal	*	*	*	*	*	*
Finland	*	*	*		*	
Sweden	*	*	*	*	*	
United Kingdom	*	*	*		*	

4.2. *Environmental objectives* are pursued in all Member States. In the area of fuel taxes this is mostly done by tax differentials. All Member States apply a higher tax rate on leaded than on unleaded petrol as required by Community legislation. Finland and

31 In Ireland proposals are currently at an advanced stage to allocate all motor tax collected to local government (at present allocated to central government). The new legislation will also empower individual local authorities to impose a local levy on top of the rate of motor tax set by central government.

Sweden apply differentiated tax rates on diesel and petrol (other than leaded) depending on set environmental criteria. The United Kingdom, Ireland and Greece apply differentiated tax rates on unleaded petrol depending on the octane content. The United Kingdom has plans to introduce a reduced rate on ultra low sulphur diesel. Some Member States regard excise duties on motor fuel as a tool to reduce the amount of diesel and petrol used, thereby reducing harmful emissions, such as carbon dioxide. In four Member States the total excise duty on motor fuel contains a carbon dioxide tax element. A number of Member States apply reduced rates to bio fuels when used within a pilot project to develop new, less harmful motor fuels. Some Member States have additional environmental objectives behind their registration taxes, for example Spain, Greece, Austria and Sweden. In Denmark it has been argued, even though the objective is primarily to raise revenue, that the level of taxation has lead to a situation where the total number of cars is below the level it would have been if no tax had applied, thus having an indirect effect on pollution in general and to a certain degree leading to reduced infrastructure costs.

4.3. *Transport objectives* are also taken into account by Member States when designing vehicle taxation. All Member States apply circulation taxes but with somewhat different approaches. Some Member States apply user charges like the Eurovignette system. Apart from the pure revenue aspect, circulation taxes and charges, and in some case registration taxes are often seen as part of the principle that users should pay their part of infrastructure and other costs in connection with the use of public roads. Furthermore, most Member States charge a lower rate of excise duty on diesel than on petrol. The argument being that diesel is the fuel used by the road haulage sector. However, the United Kingdom levies the same tax rate on diesel and unleaded petrol with the argument that there is no reason to differentiate in favour of diesel on environmental grounds. Many Member States apply reduced tax rates on methane and LPG used in road vehicles.

4.4. In Portugal the policy consideration of *redistributing income* is important when deciding the level of registration tax and annual circulation tax. The amount of tax is progressive in relation to cylinder capacity, thus targeting people with higher income, since large cars primarily are bought by those with greater income.

4.5. In Italy, Spain, Portugal and Belgium the circulation tax is used as a means to *fund local communities*. All or some part of the revenue is handed over to the region where the vehicle is registered. Furthermore in France the registration tax is a local tax where the revenue accrues to the provinces and in Italy part of the registration tax is levied at local level.

4.6. *Geographic or regional objectives* are pursued through reduced rates of circulation tax for vehicles registered in remote parts of Sweden. Differentiated circulation taxes according to region of registration are also applied in France, Italy, Spain, Portugal and the Netherlands.

4.7. Most, if not all, also pursue *social objectives* in vehicle taxation through exemptions or reductions for certain groups of individuals, such as invalids, veterans of war, etc.

4.8. In Finland, Germany and the Netherlands a separate fee is levied on motor fuels to finance a stockpile of diesel and petrol. In France and Belgium a separate tax is levied on motor fuels to support various *industrial activities*.

4.9. The questionnaire shows particularly that for most taxes more than one policy objective is involved when tax rates are decided. One Member State particularly stated that they found it important to be able to balance different devices for recouping or imposing cost on road users, including road charges, fuel duties, user charges and tolls. This is probably true for most Member States. The interdependence between different types of taxes is also shown by the fact that many Member States have chosen to levy an extra high circulation tax on diesel-driven passenger cars to compensate for the low fuel excise duty on diesel compared to petrol. Furthermore, at least one country which has introduced the Eurovignette system has reduced the amount of circulation tax payable by those who are covered by the vignette system.

4.10. The overall conclusion is that Member States apply a variety of policy objectives in different ways that lead to both different levels of taxation and different structures, but also to a certain degree of interrelating between their various fiscal instruments.

5. TAXES AS POLICY INSTRUMENTS

5.1. The main purpose of taxes is to raise the money needed to finance government expenditures. But taxes will also have other effects. All taxes have an influence of the behaviour of consumers and producers through the effect on the relative price of the taxed product versus untaxed products. This is independent of whether that is their purpose, or whether they are simply a means for raising revenues. Recently, fiscal instruments have also been recognised by a number of Member States as a useful tool to pursue other policy objectives such as transport, energy and environmental objectives.

5.2. However, there is a potential conflict between the revenue objective and other policy objectives. From a strict revenue point of view it is preferable to levy taxes in a way that has as little impact on consumer behaviour as possible, thus leaving the tax base unaffected and distorting the economy as little as possible. For other purposes it is normally the other way round, for example environmental and transport objectives are based on the idea that the tax will indeed have an impact on consumers. The more effective the tax is in fulfilling the objective the lower the revenue derived from the tax will be.

5.3. The size of these behavioural effects depends on the reaction of people to price changes, which can be measured by price elasticities of the taxed products.[32] To various degrees Member States, as indicated in the previous chapter, use their taxes to pursue a number of policy objectives in addition to the revenue raising aspect. It is not unusual that Member States when designing taxes or setting tax rates take account of more than one policy objective.

5.4. The need for public intervention in the field of for example environment, transport and energy arises because of the existence of "externalities" - costs, not covered by prices on goods and services, that the individual or firm imposes on other members of society. Without government intervention, firms and individuals may have no reason to take these external costs into account. Under certain circumstances well-designed taxes can provide an effective instrument to correct for such externalities and thereby improve the functioning of the economy as a whole. However, it is important to bear in mind that if such a tax is higher than necessary to correct the external cost it will create distortions in the same way as other taxes.

5.5. When introducing taxes with the purpose of correcting for externalities or changing the behaviour of producers and consumers the design is important. The tax can be levied in a number of different ways. The basic principle of an internalisation strategy is that the tax should be levied as close to the activity to be targeted as possible. A policy instrument will be systematically better if it has a broader impact, i.e.

[32] Price elasticity of a good indicates the percentage change in consumption following a change in price. For example a price elasticity of -1,0 indicates that a 10% price increase would lead to a decrease in the consumption about 10%. Products with a price elasticity below -1,0 are said to be inelastic, i.e. the effect of the consumption is less than the change in price.

provide consumers with as many options as possible to reduce emissions. This could be exemplified by the problem of carbon dioxide emissions.

5.6 To reduce carbon dioxide emissions a tax on emissions would in theory be the best solution. However, in real life one has to take account of other aspects such as administrative procedures. A tax on emissions would demand controlling emissions from millions of sources and also collecting tax revenue from millions of tax payers. However, there is a direct correlation between carbon dioxide emissions and fuel consumption. A reduction in the total consumption of motor fuel by 10 % leads to a reduction in CO2 emissions by 10 %. Consequently, a fuel tax would have the same impact as a tax levied directly on emissions. Furthermore, a tax on fuel reduces the number of tax payers and eliminates the problem of measuring emissions from every vehicle. A number of Member States have indicated that they regard excise duties on motor fuel as the best available fiscal tool to reduce the amount of diesel and petrol used thereby reducing harmful emissions such as carbon dioxide.

5.7. The impact of such a tax would be increased fuel prices. However, the consumers have a large number of options to minimise the effect of the tax, i.e. find the least intrusive, hence, economically optimal, way to reduce the emissions. They could change their way of driving, reduce their average trip length and annual distance driven, or in the long run use more fuel efficient cars. It could even, to some extent, discourage people from purchasing a car.

5.8. An additional approach favoured by certain Member States to use the tax instrument to discourage emissions of carbon dioxide is to levy differentiated registration or circulation taxes according to the size of the car. For example, by applying a lower tax on small cars and a higher tax on large cars, thus creating an incentive for the consumer to buy a smaller car, which normally would be more fuel efficient. Compared with the fuel tax this approach only gives the consumer one option. To avoid the tax he can choose to reduce the size of his car. However, he cannot reduce his tax burden by changing his way of driving or by reducing the mileage driven.

5.9. For other related emissions where no direct linkage between fuel consumption and the harmful emission exists fuel taxes may not be a suitable instrument. Instead the level of emission depends on the technology used. In these situations some Member States have chosen to differentiate the tax according to technology used. For example via differentiated registration or circulation taxes.

5.1 Taxes on motor fuels

5.10. Taxes on motor fuels have, as have been described above, a wide range of impacts. The size of the impact will, of course, depend on how sensitive consumers are to price changes. Traditionally motor fuels like petrol and diesel have been considered to be price inelastic products, meaning that fuel taxes would have only a small impact on the consumption levels. The recent Green Paper on Transport quotes estimations on price elasticities that, at least in the short term support this. Short run elasticities have been estimated around -0,3, which would imply that a 10 % increase in petrol prices - everything else unchanged - would decrease petrol consumption by 3 %. However, in the long run elasticities have been estimated around -0,7. It is worth stressing that even estimations of long run elasticities for fuel are low compared to elasticities on most other products.

5.11. Furthermore, it is also important to bear in mind that fuel consumption does not only depend on fuel prices but also on factors such as population, GDP, etc. Indeed, the underlying trend is that fuel consumption has been increasing, despite progressive increases in fuel taxes. However, the key issue is the extent to which the increases in consumption might have been even greater if taxes had not been increased.

5.12. When discussing the effect of taxes on motor fuel it is important to pay attention to the overall structure since it is the overall tax rate that determines the effect on consumer behaviour. The relative tax burden on different fuels is also important. The total tax burden on fuels will affect the total consumption of motor fuel while the relative tax burden between fuels will have an impact on what fuel is consumed. A lower relative tax on diesel than on petrol will promote the use of diesel driven cars. Diesel fuelled cars are, in general, increasing their market share of sales of all new passenger cars within the Community. To some extent this could be explained by the favourable treatment of diesel fuel over petrol.

5.13. In addition to the goal of reducing consumption, Member States also use taxes to promote the use of fuels that have a low content of harmful substances, such as lead, benzene and sulphur. As mentioned before the direct correlation between carbon dioxide emissions and fuel consumption makes fuel taxation an attractive tool in pursuing reductions in emissions of CO2. However, such a direct correlation does not hold true for vehicle emissions like nitrogen oxide, where different vehicle technologies are more important.

5.14. One example where a differential in fuel taxes has been used to promote less harmful fuel is that of leaded and unleaded petrol. Unleaded petrol has gained an increasing market share over the last few years. In 1995 the average market share of unleaded petrol across the EU reached about 68 %. However, this figure does not reflect the wide difference in the use of unleaded petrol. In countries like Austria, Sweden and Finland 100 % of the petrol used is unleaded. Whereas, in Spain, Greece and Portugal the market share of unleaded petrol at present represents only 30-40 %. The success of unleaded petrol is, however, not entirely due to the tax differential but must also be viewed in light of the fact that new cars must be equipped with catalytic converters and consequently cannot run on leaded petrol.

5.15. Another example is differentiation of excise duty on diesel and unleaded petrol according to environmental criteria. This has proved to be a successful instrument in Sweden and Finland where fuels of the environmentally better grades have taken a large share of the market.

5.16. So far Member States have used fiscal incentives such as reduced tax rates to promote less harmful fuels. From a fiscal point of view there is a potential problem with this route. If the incentive if successful it will lead to reduced tax revenues, especially if it has a stronger effect than planned. When the new fuels have become the standard product on the market, like the case of unleaded petrol in some Member

States, it could prove difficult to increase the rate of duty in order to compensate for lost revenue. At least one Member State has tried an alternative route. Instead of applying a reduced tax rate on better grade unleaded petrol to promote its use, Sweden increased the tax rate on lower grade unleaded fuel with the aim of bringing about a behavioural change whilst minimising revenue loss.

5.2 Registration or sales taxes on motor vehicles

5.17. Registration taxes or fees are used by almost all Member States. In many Member States these taxes are used as revenue raisers, but also to fulfil other objectives. Depending on the design of the tax the effect will differ. The most common design is to have a positive tax rate on all cars, with for example a reduced tax on less polluting cars. While such taxes may discourage purchase of new vehicles (safer and cleaner), since cars are made relatively more expensive than other products, and hence reduce the total number of vehicles on the road, they may also result in consumers keeping older, less technologically clean, vehicles for a longer time, thus increasing the potential for emissions. At least one Member State has therefore experimented with a registration type of tax designed in such a way as not to discourage purchase of new vehicles, by levying the tax on cars not fulfilling a set of pre-decided criteria, thus promoting less polluting cars by penalising more polluting cars. It can be noted that Member States with a large car production tend to have relative low registration taxes or no taxes at all. Furthermore, the size of the car fleet and sales of new cars tend to be higher in Member States with low registration taxes. Annex E provides statistics on car production, car sales and the size of car fleets.

5.3 Circulation taxes

5.18. Circulation taxes are levied in all Member States. In many Member States these taxes are used as revenue raisers, but also to fulfil other objectives. Member States charge these taxes according to various criteria, such as engine capacity, horsepower, fuel type, region of registration etc. In some cases, the age of the vehicle is taken into account. Circulation taxes are often influenced by the need to recoup infrastructure costs. On the one hand, infrastructure costs depend on the type of vehicle, weight of vehicle, number of axles and types of suspension. On the other hand the wear and tear of the infrastructure by vehicles will, of course also depend on the mileage driven. In this case one drawback with circulation taxes is that they are imposed independently of the mileage driven. Once the tax is paid there is no incentive to choose other means of transport.

5.19. Circulation taxes are also to some extent used as a tool for combating harmful emissions, notably by differentiating taxes to take account of the level of harmful emissions where no strict relationship between fuel consumption and emissions exist but where the technology is more important. In Germany, for example, the circulation tax on passenger cars is differentiated according to harmful emissions and the circulation tax on heavy vehicles is differentiated according to levels of emissions and noise. Circulation taxes are in some Member States used to compensate for problems caused by other vehicle related taxes, the obvious example being the tax treatment of diesel and petrol. There are no valid arguments to tax diesel consumed by passenger cars differently to petrol. However, since diesel is used in the freight transport sector most Member States find it difficult to levy the same level of excise duty on diesel as on petrol, thus indirectly giving a tax incentive for diesel cars over petrol cars. To compensate for this a number of Member States are currently using circulation taxes to level out the overall tax treatment of diesel and petrol driven cars.

5.4 Road tolls

5.20. Road tolls have traditionally been levied on motor ways in some Member States as a means to finance the building and operation costs of such roads. More recently the idea of using road tolls locally in large cities in order to combat congestion and harmful emissions has emerged. By using differentiated tariffs it could be possible to spread out the use of the roads over time and thereby reduce congestion. Some Member States are also investigating how increased use of road pricing could provide an increased incentive to shift over to other forms of transport such as public transport.

5.21. An instrument which should be regarded as a hybrid of road tolls and annual circulation taxes is the recently introduced Eurovignette system. The main feature of the Eurovignette system is that heavy goods vehicles have to pay a charge for the use of the motor way system in the Member States which are operating the system. By paying the fee in one Member State admission is granted to the motor way system in all other participating Member States. The fee is dependent on weight and number of axles of the vehicle and the time used, but not the mileage driven. However, in the case where only annual rates apply, the "Eurovignette" will have more or less the same effect as an annual circulation tax. The main difference is that circulation taxes are paid in the country where the vehicle is registered while the Eurovignette is paid in the country where the costs are caused - the principle of territoriality is used.

5.5 Scrappage schemes

5.22. Another available instrument, related to taxes, used by certain Member States is the scrappage subsidy. The effect of such a scheme depends on the fleet composition in the country where it is implemented. The overall impact on the environment also depend on an adequate capacity to dispose of these old vehicles in an environmentally optimal way. Overall it has tended to be seen as a short term instrument by those Member States who have used this instrument, as in the long-run the old vehicles would be replaced anyway thus the subsidy is paid for cars that would have been scrapped sometime in the future. However, such schemes have, according to the Member States concerned, had a positive impact on vehicle related emissions through speeding up the introduction of less polluting cars.

6. COMMUNITY POLICY AREAS

6.1 Fiscal policy

6.1. Community law provides for a Common VAT regime and a system for the imposition of Excise Duties. Fiscal measures at Community level have so far been adopted primarily to secure the functioning of the internal market and to safeguard Member States revenue from excise duties.

6.2. The key objectives are to provide stable tax systems with security of receipts and minimal exposure to fraud, whilst reducing compliance costs to a minimum particularly in respect of intra-community transactions. The High Level Group on Taxation in the European Union has confirmed the Commission's view that, in the context of subsidiarity and proportionality, there can be no justification for harmonisation of tax systems for the sake of harmonisation. Rather there is a need for a pragmatic approach, founded on improved co-operation between Member states, which would help to safeguard revenues whilst simultaneously minimising tax competition.

6.3. In its report[33] to the European Council of Dublin 1996, the Commission concluded that there is need for further work on the interaction between taxation and shared Community goals, such as enterprise, employment and the environment. To facilitate this development a taxation policy group chaired by the Commission was set up. In the longer run the policy group might prepare the way for a general agreement to ensure that taxation policies are better geared towards achieving important union objectives while at the same time protecting fiscal bases against harmful tax competition.

6.2 Competition policy

6.4. For the motor industry, the different fiscal regimes can mean that manufacturers have to produce different specifications of the same model in order to maximise tax efficiency. The criteria used to calculate liability to tax, and to establish tax definitions, categories or thresholds vary considerably. For example, a Member State may choose to apply considerably different tax levels to vehicles above and below a given threshold, such as a certain engine capacity. Alternatively, the method of tax calculation may include factors such as the number of gears, the fuel consumption levels, and so on. As a further example, the level of taxation may depend on the definitions of different vehicle categories, and these in turn may employ allegedly arbitrary criteria such as vehicle weight, size, etc.

6.5. As these factors can vary from one Member State to another, a manufacturer may find that he is obliged to develop different versions of the same vehicle model, in order to maximise tax efficiency. In other words, purely for tax reasons, a manufacturer must develop different specifications for different national markets. This

[33] COM(96) 546 final, Taxation in the European Union - Report on the Development of Tax Systems

type of fragmentation within the vehicle manufacturing industry is contrary to the spirit of the internal market, and the need to minimise, if not fully prevent it, must be recognised by Member States when they are developing their tax systems. It must also be recognised in the context of Community and/or national measures which seek to advance other policy objectives (for example environment, transport, regional, etc.) through the use of tax instruments.

6.6. It is also perhaps inevitable that there are allegations that Member States' tax systems may happen to benefit national producers, to the detriment of producers in other Member States. This is not so much a problem of ensuring equality of treatment between Member States, but of ensuring that, within each Member State, vehicles of a similar type and characteristics do not attract different tax treatment as a result of the structure of the tax system. From a manufacturers' viewpoint, this is an essential element of the internal market, in that he should be able to trade on equal terms with his competitors in any Member State. For the consumer, it means that any differences in retail prices should not be explained by different tax incidences for vehicles of similar characteristics. It can be noted that there is ample jurisprudence of the Court of Justice to show that imposing higher taxation on products from other Member States compared with similar products produced domestically, infringes Article 95 of the Treaty.

6.7. As described above, the current flexibility for Member States to modulate their tax systems can lead to potential distortions in national markets. However, that flexibility can also have an international distortive effect, in that it has been observed that tax-exclusive prices for similar or identical models vary considerably between Member States. A range of factors appear to contribute to this phenomenon, including the fact that manufacturers do indeed produce different specifications of the same model, for different national markets. However, on a general level, the overall tax burden on cars has been found to have a strong influence on tax-exclusive prices, with the lowest pre-tax prices often applying in those Member States which apply high taxation policies.

6.8. This problem is further compounded by the fact that the potentially corrective effect of market forces does not seem to have had the expected or desired impact. Purchasers should be able to seek out the best pre-tax prices in neighbouring Member States, thus saving on the cost of a car even if taxes have to be paid in their own country in the normal way. Obviously, there may be additional costs to be considered, such as travel, currency conversion, and so on, but it would also appear that potential purchasers can find that their efforts to buy a car in another, cheaper Member State are frustrated or obstructed by a lack of co-operation from suppliers. This would suggest that at least some elements of the motor trade are impeding the process of tax approximation which might be expected to come about over time, as a result of the effect of differing tax systems on pricing policies. Furthermore, price comparisons on an equal level are hardly possible for consumers wishing to acquire a new vehicle in one of these Member States. A number of consumers who tried to buy a car, in particular in Denmark or Finland, have complained to the Commission about the impossibility of identifying the pre-tax price applicable for cars intended for re-export.

6.9. The latest bi-annual survey "*Car prices within the European Union*"[34] shows that for 43 of the total of 75 models examined, pre-tax prices within the Community differ by more than 20 %. This is in spite of the fact that the three highest taxing Member States (Denmark, Finland and Greece) were not included in the survey, due to lack of information. The lack of transparency in this area makes it difficult for the Commission to ensure that price differentials are within the range permitted by Regulation 123/85[35].

6.3 Other internal market policy aspects

6.10. Apart from the problems of distortion of competition in the vehicle market, there are other areas of concern from an internal market viewpoint.

6.11. The first of these is the treatment of private individuals who move, with their vehicles, from one Member State to another. Individuals moving between Member States - either temporarily or permanently - often encounter problems of double taxation (either having to pay tax a second time, or difficulties in satisfying the authorities that a second payment is not due) as a result of the differing tax regimes applying to motor vehicles.

6.12. At Community level two directives have existed since 1983, providing relief from indirect taxes in certain cases of temporary or permanent importation by private individuals[36]. The first of these directives covers use of a vehicle in a Member State other than that in which the vehicle user is normally resident. Broadly speaking, relief is permitted for a period of up to six months in any twelve months. The main area covered in the second directive concerns relief following transfer of residence. However, this directive only related to import taxes, and does not cover Registration taxes. Consequently it is of no meaningful effect in the post-1992 situation.

6.13. Other problems in these areas include difficulties in establishing or proving where a person has his normal residence, the question of who should be allowed to drive a vehicle which has been admitted without payment of tax, what rules to follow in the case of hire cars where the hire contract ends in another Member State, treatment of frontier workers, students, etc.

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[34] Car prices within the European Union on 1 May 1997, Directorate-General IV, Commission of the European Communities

[35] Commission Regulation (EEC) NO 123/85 concerning the application of Articles 85 (3) of the Treaty to categories of new motor vehicles distribution and services agreements, OJ L 15 of 18.1.85, since 1.7.95 replaced by Regulation (EC) No 1475/95, OJ L 145 of 29.6.95.

[36] Council Directive 83/182/EEC of 28 March 1983 on tax exemptions within the Community for certain means of transport temporarily imported into one Member State from another (OJ No L 105, 23.04.83, p. 59)

Council Directive 83/183/EEC of 28 March 1983 on tax exemptions applicable to permanent imports from a Member State of the personal property of individuals (OJ No L 105, 23.04.83, p. 64)

6.14. These problems take on even greater significance in the context of the single market. Firstly, the notion of a single market implies freedom to move between Member States, thus rendering obstacles to such freedom even more unacceptable than before. Secondly, the lead-up to the single market gave rise to high expectations - however unrealistic - of cheaper cars and freedom to buy in the Member State of one's choice, and to pay taxes in that State. There was also speculation that vehicle taxes would be harmonised. From the consumer's viewpoint, problems associated with movement - either temporary or permanent - between Member States were largely expected to disappear. The reality was very different. As indicated above, the Internal Market did not bring about much improvement in the movement of private vehicles between Member States generally, and did nothing to relieve the existing difficulties arising from temporary movement between Member States. The need to present a proposal addressing these problems has been highlighted by a steady increase in the number of complaints by citizens to the European Commission, corresponding increases in the volume of petitions to the European Parliament and, most recently, by calls from the High Level Panel on the Free Movement of Persons, chaired by Mrs. Simone Veil, for solutions to eliminate cases of double taxation of vehicles.

6.15. A particular problem also exists in relation to the car rental sector. This sector has found that the reality of the post-1992 arrangements falls a long way short of a true internal market. Indeed, the current situation effectively prevents free movement of rental cars within the Union. At present, a vehicle registered in one Member State cannot be hired for use in another Member State by a resident of that latter Member State. This applies even where the hirer wishes ultimately to use the vehicle in a Member State other than that in which he resides.

6.16. As several Member States apply high taxation policies to motor vehicles, including rental vehicles, they do not wish to see a situation whereby rental cars registered, and taxed, in other Member States, are made available for rental on their territory and to their citizens. Complete freedom in this context would probably mean that rental companies would only operate from, and register cars in, those Member States with low taxation policies. However, the measures applied by Member States to prevent such a scenario could be considered excessive, if not draconian, in the context of an internal market. There certainly would appear to be an imbalance between the lengths to which Member States go in pursuit of protection of their tax base, and the rights and expectations of car rental companies. In effect, despite introduction of the internal market in 1993, European rental companies have little option but to operate separate fleets in individual Member State markets, and are prevented from exploiting the economy of scale and other benefits which might otherwise be expected under the internal market.

6.4 Environmental policy

6.17. One of the tasks of the Community is to promote sustainable economic growth.[37] The Treaty also stipulates that the polluter should pay, and that environmental protection requirements should be integrated into the definition and

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[37] EC Treaty, Article 2

implementation of other Community policies.[38] To ensure that high environmental standards are compatible with other goals, such as a high level of employment, which requires inter alia high economic performance and a competitive European Industry, it is essential to find cost-effective solutions to environmental problems.[39] Taxation, by affecting the price of goods, is one economic instrument which can be deployed to internalise the external costs of their use.

6.18. Until now the control of transport-related air pollution at EU level has largely followed a regulatory approach aimed at bringing down emissions through product standards and rules to reach air quality standards. The issue of CO2 emissions is discussed in the Communication on CO2 emissions from passenger cars, [40] where fiscal measures to promote the fuel efficiency of passenger cars were identified as being among the potential tools (CO2 emissions depend on the quantity of fuel consumed). Other measures identified as being parts of a future strategy to limit CO2 emissions were fuel-economy labelling, an agreement between the Community and the auto industry involving clear objectives and provisions for monitoring emissions and an ambitious R&D effort to improve vehicle performance in line with the Action Plan of the Task Force on the Car of Tomorrow. Based on the results from the Auto Oil programme the Commission has recently put forward proposals relating to the quality of petrol and diesel and measures to be taken against air pollution by emissions from motor vehicles, including provisions for the limited use of fiscal incentives for vehicle reaching certain environmental standards sooner than required by Community legislation (amendment of Directive 94/12/EEC).[41]

6.5 Transport policy

6.19. Internalising external costs is a key objective of transport policy. A reduction in traffic congestion on the roads is also an important element of current transport policy. The recently published Commission Green Paper on "*Fair and Efficient Pricing in*

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[38] EC Treaty, Article 130r.

[39] Fifth Environmental Action Programme, COM (92) 23.

[40] Communication from the Commission to the Council and the European Parliament: A Community Strategy to reduce CO2 emissions from passenger cars and improve fuel economy, COM (95) 689 final.

[41] Communication from the Commission to the European Parliament on a future strategy for the control of atmospheric emissions from road transport taking into account the results from the Auto/Oil Programme, COM (96) 248 final.

- Proposal for a European Parliament and Council Directive relating to the quality of petrol and diesel fuels and amending Council Directive 93/12/EEC

- Proposal for a European Parliament and Council Directive relating to measures to be taken against air pollution by emissions from motor vehicles and amending Council Directives 70/156/EEC and 70/220/EEC.

Transport"[42] aims at making transport pricing systems fairer and more efficient in order to influence transport users to minimise the overall costs and negative external effects of transport. The green paper on the "*Citizens Network*"[43] aims at achieving networks that fit together so that passengers can easily change from one transport mode to another. It is deemed essential that individual and public transport operations are integrated more effectively. Furthermore, the European Council has endorsed the Commission proposal to create a Transeuropean transport network. The Commission has recently put forward a proposal for amending Directive 93/89/EEC on the usage of taxes and user charges on heavy goods vehicles.[44]

6.20. In the Green Paper on Transport the large difference in the level of circulation taxes between Member States was highlighted as a potential distortion of competition between hauliers of different nationalities as hauliers operating the same vehicles and carrying identical consignments are charged differently on the basis of their nationality.

6.6 Industrial policy

6.21. From an industrial policy viewpoint, the main preoccupation is competitiveness. This applies both within the European Community, and between European industries and those in third countries. In the automobile sector, there is a concern that increasing fuel costs and/or purchase price of cars might lead to a downturn in new car sales in the Community, which would have an negative impact on that sector. The differential between petrol and diesel also needs careful consideration, as Europe has established a world leadership in diesel-engined vehicles.

6.7 Energy policy

6.22. The current priorities for energy policy at the Community level are set out in the Commission document "An Overall View of Energy Policy and Actions"[45]. Energy policy is aimed at managing external dependency to secure energy supply; integrating the energy markets to achieve greater industrial competitiveness; ensuring sustainable development by maintaining the compatibility of energy and environmental objectives; developing energy technology research. The importance of energy taxation in achieving the Single Market is highlighted as is the use of fiscal incentives to promote renewable energies, and the internalisation of environmental costs.

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42 Towards Fair and Efficient Pricing in Transport: Policy Options for Internalising the external Costs of Transport in the European Union, COM (95) 691 final

43 The Citizens Network, Fulfilling the Potential of Public Passenger Transport in Europe, EC, November 1995

44 Commission proposal for a Council Directive COM (96) 331

45 COM(97) 167, 23 April 1997

6.8 Employment policy

6.23. As recommended by the Essen European Council, taxation is one instrument in the fight against unemployment together with active employment measures, such as investment in training and greater flexibility of labour markets. Options for financing reductions in taxes on labour include public expenditure reductions and/or increased taxation on consumption or on other factors of production other than labour for example excise duties on energy. The Commission's White paper on Growth, Competitiveness and Employment[46] emphasised that the choice of financing such measures could differ between Member States, given the diversity of tax and social security systems and different policy priorities. One of the options identified was increased indirect taxation on energy.

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46 COM (93) 700 final

7. CURRENT AREAS OF ACTION AT COMMUNITY LEVEL

7.1 Value-added Tax

7.1. VAT is subject to a Community-wide regime, which imposes a considerable degree of common rules. Motor vehicles and motor fuels are generally subjected to the standard rate of VAT in each Member State, which must be not less than 15%. Common rules govern the method of calculation of the taxable amount. One area where different practices can exist for cars is in relation to the right of a VAT-registered trader to deduct VAT on his inputs. Some Member States restrict this facility, and some exclude cars completely.

7.2. The Community Value Added Tax regime is constructed as a general consumption tax purely for revenue raising purposes and is therefore not an appropriate instrument to pursue non-fiscal goals such as environment protection or transport policy. Nonetheless, certain current or future initiatives in the VAT area could be of benefit in relation to the overall question of vehicle taxation. Firstly, the Council has adopted a Directive[47] aimed at greater approximation of the standard VAT rate. Secondly, it has mapped out its planned timetable concerning the changeover from the current VAT regime to a system based on taxation in the country of origin. Both of these measures are intended to improve the overall functioning of the internal market. The trade in motor vehicles, like other goods and services, should see improvements as a result. In addition, these measures should have positive consequences in the areas of competition and fiscal policy.

7.2 Excise duty system for fuels

7.3. Community rules exist which lay down a common system for the charging of excise duty on fuels, together with minimum rates for such duty. The internal market is the prime reason for the existence of such rules, in order to ensure compatibility of treatment in each Member State and to provide some degree of rate approximation. In addition, it is noted that other policy areas, notably transport, environment and energy considerations can have an impact on this system.

7.4. The directives on excise duty on mineral oils lay down minimum rates of excise duty which must be respected by Member States. They are free to apply rates above these minima, but may only apply one rate per product type (e.g. unleaded petrol, leaded petrol, diesel, LPG, etc.) However, there is provision under article 8 (4) of Directive 92/81/EEC whereby Member States can seek the approval of the Commission and the Council to depart from the general rules in certain circumstances. This has been used in relation to motor fuels to apply rates below the minima in some cases (e.g. public transport) and to apply differential treatment of fuels according to environmental criteria (e.g. different rates for different grades of unleaded petrol). The derogations granted under this provision fell to be reviewed by 31 December 1996 on

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47 Council Directive 96/95/EC of 20 December 1996 amending, with regard to the level of the standard rate of value added tax, Directive 77/338/EEC on the Common system of value added tax.

the basis of a report and proposal from the Commission. Such a report and proposal were presented to the Council on 14 November 1996 (COM (96) 549 final).[48]

7.5. In the above report and proposal the Commission took account of the fact that it would soon after present proposals for an overall scheme of taxation of energy products. Indeed, it recognised some of these derogations should be prolonged pending adoption of a new scheme of taxation based on such proposals. It also acknowledged that there could be merit in giving Member States greater freedom to implement unilaterally some of the measures which are currently applied under derogations. These include, in particular, derogations granted in respect of public transport and differential treatment of unleaded petrol according to environmental criteria.

7.6. Under article 10 of Directive 92/82/EEC, the minimum rates of excise duty must be reviewed every two years. These reviews must take account of the proper functioning of the internal market, the real value of the rates of duty and the wider objectives of the Treaty. In its first such review, in 1995, the Commission noted that significant increases in the minimum rates for petrol were warranted, even just to keep pace with national rates. The review also noted that there were grounds for narrowing the gap between the rates on petrol and diesel. However, presentation of proposals was deferred pending a wide ranging consultation process. That process has now concluded and the Commission has put forward a new proposal for a new approach on taxation of energy products.[49]

7.7. The new initiative from the Commission arises partially as a result of the conclusions of the first review of minimum rates and partially from the ECOFIN invitation to put forward new proposals, following the absence of agreement on the carbon/energy tax proposals. As indicated above, it will also incorporate aspects arising from the review of the derogations granted under article 8 (4) of Directive 92/81/EEC.

7.8. The broad thrust of the new proposal is to extend the scope of the existing Community-wide system beyond mineral oils to other competing fuels. This will be of greatest impact in the heating fuel sector, as all motor fuels are already subject to excise duty at present. The proposal also covers not just excise duty but all indirect taxes on fuels (excluding VAT), by laying down minimum levels of taxation rather than specific excise duty minima. Member States will be free to construct their tax systems as they wish provided that the consequent tax incidences are not below the new minima. In addition, they will have greater freedom to differentiate duty rates above the minima. For motor fuels, the minimum levels proposed will be significantly higher than the existing excise minima. In addition, greater coherence between the minimum

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[48] Acting upon the proposal from the Commission the Council has adopted a Council decision (of 30 June 1997) authorising Member States to apply and to continue to apply to certain mineral oils, when used for specific purposes, existing reduced rates of excise duty or exemptions from excise duty, in accordance with the procedure provided for in Directive 92/81/EEC.

[49] COM (97) 30 final Proposal for Council Directive restructuring the Community framework for the taxation of energy products.

levels on different products is envisaged, as are periodic specified increases in the minima. It is proposed that the new minimum tax level on unleaded petrol should exceed the current excise minimum by 45%, and a corresponding increase of 27% is proposed for diesel. Today most Member States apply tax rates far above EU minimum rates. Therefore the effect on national tax rates of the proposal will be limited.

7.3 Carbon and energy taxation

7.9. In 1992, the Commission put forward proposals for a carbon and energy tax. This proposal was not accepted by the Council, and in 1995 the Commission put forward an amended proposal, with the intention of giving Member States greater flexibility. However, this proposal also failed to secure agreement, and the outcome of the discussions was an invitation to the Commission from the ECOFIN Council of March 1996 to come forward with new proposals for the taxation of energy products generally. With its new proposal for restructuring the Community system for the taxation of energy products, as described in section 7.2, the Commission has responded to this request.

7.4 The Auto Oil Programme

7.10. In recognition of the fact that the future Community policy on the control of vehicle emissions should be based on an integrated and comprehensive approach taking into account the potential of a wide variety of different measures for bring about cost-effective solutions, the Commission, in 1992, invited the European oil and automobile industries to participate in a collaborative programme with the intention of developing a solid technical foundation upon which the Commission could build its future strategy: this programme subsequently became known as the Auto-Oil Programme.

7.11. Considering the result of the Auto-Oil Programme the Commission presented in 1996 new proposals amending existing Community legislation on measures to be taken against air pollution by emissions from motor vehicles and quality standards for petrol and diesel fuels.[50]

7.12. In the context of fiscal incentives for motor vehicles Directive 89/458/EEC[51] introduced a Community framework for the granting of fiscal incentives to encourage

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[50] Communication from the Commission to the European Parliament on a future strategy for the control of atmospheric emissions from road transport taking into account the results from the Auto/Oil Programme, COM (96) 248 final.

- Proposal for a European Parliament and Council Directive relating to the quality of petrol and diesel fuels and amending Council Directive 93/12/EEC

- Proposal for a European Parliament and Council Directive relating to measures to be taken against air pollution by emissions from motor vehicles and amending Council Directives 70/156/EEC and 70/220/EEC.

[51] Council Directive of 18 July, 1989, amending, with regard to European emission standards for cars below 1,4 litres, Directive 70/220/EEC on the approximation of the laws of the Member States relating to be taken against air pollution by emissions from motor vehicles.

the introduction of vehicles reaching certain environmental standards sooner than required by Community law. It could be noted that this fiscal framework has been established within the context of a directive based on Article 100A of the Treaty.[52] The fiscal incentive framework does not aim at harmonising taxes but rather at preventing obstacles to the functioning of the internal market in this sector. Without a Community framework Member States would be free, within the limits of the Treaty, to apply fiscal incentives on a wide range of emission limit values.

7.13. The principle adopted in the framework as last amended in Directive 94/12/EEC have been to permit fiscal incentives only for passenger cars complying with the emission criteria laid down in Directive 94/12/EEC and provided that they are:

- non-discriminatory;
- limited in time and that they terminate when the new emission standards become mandatory;
- of an amount lower than the additional cost of the technical solutions introduced to ensure compliance with the new emission values and the cost of their installation on the vehicle.

The framework does not cover fiscal incentives for lorries, light trucks or heavy goods vehicles.

7.14. In developing its new proposal (COM(96) 248 final) for new vehicle emission standards the Commission has declared its intention to explore a more flexible approach to the use of fiscal incentives. Accordingly, the new proposal includes two sets of emission standards. One mandatory standard to be applied from the year 2000 and another indicative standard applicable from the year 2005. Member States will be able to use fiscal incentives to encourage the introduction of vehicles conforming to both sets of emission limits.

7.15. The Commission proposal also envisages a second Auto-Oil programme. One of its task would be to propose mandatory emission limit values to apply from 2005 confirming or modifying the indicative values currently presented for 2005. Work is already under way on Auto-Oil Programme II. This second programme is also expected to pay closer attention to the contribution that selective and differentiated fiscal measures could make whilst not negatively impacting the functioning of the internal market. It should also establish whether the provision limiting the use of fiscal incentives to promote low emission vehicles should be revised.[53]

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52 Directives under Article 100A are adopted under qualified majority in the Council. Directives under article 99 are adopted with unanimity in the Council.

53 Article 5 of the Proposal for a European Parliament and Council Directive relating to measures to be taken against air pollution by emissions from motor vehicles and amending Council Directives 70/156/EEC and 70/220/EEC.

7.5 Taxation of Heavy Goods Vehicles

7.16. Directive 93/89/EEC lays down certain rules in relation to the taxation of heavy goods vehicles. Under this directive Member States must respect a scale of minimum rates for circulation taxes on heavy goods vehicles. The directive also contains provisions relating to the imposition of tolls and user charges, including those which gave rise to the introduction of the "Eurovignette" user charge system which is currently implemented by five Member States. This directive was annulled by the European Court of Justice on technical grounds (failure to follow the correct procedure regarding consultation with the European Parliament). However, its provisions remain in effect pending adoption of a replacement directive.

7.17. In its Green Paper on Fair and Efficient Pricing in Transport, the Commission raised a number of issues for discussion concerning fiscal aspects of the road haulage sector. These include the appropriate link between petrol and diesel taxation, the possibility of differentiating fuel taxes according to environmental criteria. It also raised a number of issues concerning the appropriate mix of instruments in order to best ensure fair and efficient pricing of road transport, and in particular in order to internalise external costs.

7.18. As a first follow up to the Green Paper, and in response to the outcome of the case in the European Court of Justice mentioned above, the Commission has made new proposals regarding the taxation of heavy goods vehicles. These proposals go beyond simply reinstating the provisions of Directive 93/89/EEC. They envisage greater differentiation of circulation taxes and user charges according to environmental and/or infrastructural damage criteria. They also intend to allow Member States to go below the minimum circulation tax rates where complementary user charges are applied.

7.19. The proposal for a new directive has not yet been adopted by the Council. Indeed, the Commission's new proposals on taxation of energy products should help to enlarge the debate further, and ultimately to assist in arriving at a coherent approach across the range of instruments.

7.6 Temporary and permanent movement of private vehicles

7.20. As indicated earlier, two directives have existed since 1983 concerning the tax treatment of private vehicles when persons move either temporarily or permanently from one Member State to another. However, Directive 83/183/EEC was confined to taxes connected to importation, and thus is of no impact since 1 January 1993, when import taxes between Member States were, in effect, prohibited. Directive 83/182/EEC concerning temporary movements remains valid, though has been found to be increasingly insufficient to address the situations which arise with the greater freedom of movement expected under an internal market. Indeed, a proposal for liberalisation of this directive was put forward as far back as 1987, but this failed to secure agreement at Council.

7.21. The Community legislation governing the treatment of persons moving their vehicles between Member States is inadequate in the context of the internal market. The Commission has given an undertaking to bring forward new proposals, in an effort to improve this situation. An appropriate proposal to address these problems is under preparation. The proposal will cover both cases of transfer of residence and temporary movement from one Member State to another.

7.7 Discriminatory effect of national tax systems

7.22. As indicated earlier, national tax systems can operate in a way which does not ensure equality of treatment between vehicles produced domestically and those sourced outside the national territory. Some of the problems in this area might be overcome by greater approximation of tax systems and structures. Nonetheless, existing Community law, and in particular certain provisions of the Treaty, require Member States to ensure that their tax systems do not produce such discriminatory effect. Consequently, cases where such discriminatory treatment is alleged are investigated by the Commission services. Where an infringement of Community law is suspected, the Commission follows up its investigation by instituting legal proceedings against the Member State in question.

ANNEX A: Vehicle taxation system in the Member States as of January 1997

1. BELGIUM

1.1 Taxes on vehicles

1.1.1 Registration tax

A registration tax known as the *Taxe de mise en circulation* (TMC) is levied in connection with the registration of passenger cars, dual purpose cars, minibuses and motorcycles. The tax is payable on change of ownership of a vehicle. The amount of registration tax due is based on the power of the engine and ranges from 2 500 to 200 000 BF, with age-related discounts. A uniform rate of 2 500 BF applies to vehicles registered for ten years or more. In addition a flat rate charge of 2 500 BF is due for the registration certificate and the number plates for all vehicles.

The purchase of private cars and commercial vehicles are subject to the normal rate of VAT, which currently stands at 21 %. The tax base being the invoice price at the time of sale of the vehicle. Registration tax is not part of the tax base.

1.1.2 Annual circulation tax

Belgium currently applies a circulation tax (*taxe de circulation*) to all motor vehicles which use the public highway, i.e. passenger cars, dual-purpose cars, minibuses, motorcycles, buses, coaches, HGVs, pickups, tractors, trailers and semi trailers. Fiscal liability begins with the use of the vehicle on the public highway. The rate of taxation is normally based on one of two criteria:

1) Engine power: applicable to passenger cars, dual-purpose cars, minibuses, coaches and buses; this power is expressed in taxable continental horsepower (CV) and is calculated on the basis of the cubic capacity of the engine; For example a car with 4 units of CV has a annual tax of BFR 1 992, a car with 10 units of CV has a tax of BFR 8 040 and a car with 20 units of CV BFR 50 940.

2) Vehicle weight: applicable to HGVs, pickups, tractors, trailers and semi-trailers (all vehicles designed to transport goods. The tax rate is progressive.

A uniform tax rate applies for motorcycles (BFR 1 416). Reduced rates apply for passenger cars and dual-purpose cars first registered more than 25 years ago.

The revenue from the circulation tax is used to fund local communities.

In addition to the annual circulation tax there are also a supplementary circulation tax and a compensatory excise tax. The supplementary circulation tax is payable in respect of vehicles which run on liquefied petroleum gas (LPG) or other liquefied gaseous hydrocarbons and serves as a substitute for an excise duty on LPG. The tax rate amounts to BFR 3 600, BFR 6 000 or BFR 8 400 depending on whether the taxable engine power is 7 units of CV or less, 8 CV but not more than 13 CV, or over 13 CV.

The compensatory excise tax is payable in respect of passenger cars, dual-purpose cars and minibuses which run on diesel. The tax was introduced in 1996 when the tax on petrol and diesel was last raised. The Belgian Government did not wish to place the road transport sector at a disadvantage in relation to its counterparts in other Member States and created a separate form of circulation tax payable for vehicles other than those designed for road transport to compensate for the fact that the increase in excise duties applied only to petrol.

1.2 Taxes on motor fuels

Taxes expressed in national currency are charged on motor fuels at the following rates:

Fuel	*Unit*	*Excise*	*Special/ excise*	*Energy levy*	*Petroleum Products Analysis Fund levy***	*Total*
Leaded petrol	1 000 litres	11 900	10 360	550	10	22 820
Unleaded petrol	1 000 litres	9 900	8 350	550	10	20 470
Paraffin used as motor fuel	1 000 litres	11 900	10 360	550	10	22 820
Diesel	1 000 litres	8 000	3 700		10	11 710
LPG	1 000 litres	0	0	0	0	0
Natural gas	1000 cbm	0	0	0	0	0
Biofuels	1 000 litres	to be taxed at the rate of equivalent motor fuel*				

* Biofuels used in any way other than in a pilot project adopted by the Ministry of Finance for the purpose of the technological development of greener products are subject to the excise applicable to motor fuels for the equivalent engine.

** The levy is raised for the benefit of the Fund.

All motor fuels are liable to the standard rate of VAT, which currently stands at 21 %.

1.3 Insurance tax

A insurance tax is levied on premiums paid in respect of vehicle insurance. The rate of tax is 9,25 % of the premium paid. Vehicles intended exclusively for road haulage purposes and with a maximum laden weight of at least 12 metric tons get a reduction to 1,4 % for compulsory policies and policies covering material damages.

1.4 Road user charges

As from 1 January 1995 a road user charge called "Eurovignette" is levied in Belgium for vehicles for transport of goods with a maximum vehicle weight exceeding 12 tons (based on Directive 93/89/EEC). The road user charge system is part of an integrated toll system operated by the Netherlands (since 1.1.1996), Belgium, Germany, Luxembourg and Denmark.

2. GERMANY

2.1 Taxes on vehicles

2.1.1 Registration tax

For purchase of a vehicle, value added tax is levied at the standard rate, which at present is 15 %. There are no other taxes or duties on the acquisition or the registration of the vehicle. On registration (and de-registration) of vehicles, only an administrative fee is imposed. For the initial registration the fee is DM 50,00 (+DM 4,00 stamp duty). At subsequent registrations the fee is DM 40 in the case of a change of residence and DM 30 without change of residence.

2.1.2 Circulation tax

Annual road tax (*motor vehicle tax*) applies to all motor vehicles.

Private cars: The standard annual rate is DM 13,20 per 100 cc (diesel DM 37,10 per 100 cc). Increased rates apply for cars not fulfilling certain emission criteria. These tax rates are DM 18,80 (diesel DM 42.70) for cars registered before 1 January 1986 and DM 21,60 (diesel DM 45,50) on cars registered on or after this date.

Commercial cars: The amount of tax is based on the weight of the vehicle. Increased rates apply for vehicles not fulfilling certain emission and noise criteria

2.2 Taxes on motor fuels

The following excise duty rates expressed in national currency apply to motor fuels.

Fuel	Unit	Excise	Total
Leaded petrol	1000 litres	1 080	1 080
Unleaded petrol	1000 litres	980	980
Diesel	1000 litres	620	620
LPG, public vehicles*	1000 kg	241	241
LPG	1000 kg	612,50	612,50
Natural gas, public vehicles*	MWh	18,70	18,70
Natural gas	MWh	47,60	47,60
Biofuels			?

*Reduced rate until 31st December 2000.

All motor fuels are liable to the standard rate of VAT, which currently stands at 15 %.

2.3 Insurance tax

Premiums for insurance in the vehicle sector are subject to insurance tax of 15 %.

2.4 Road user charges

On the basis of Directive 93/89/EEC a motor way charge has been levied in Germany since 1 January 1995. The Eurovignette user charge is payable in respect of motor vehicles and composite units intended exclusively for road haulage with an authorised maximum laden weight of at least 12 metric tons. The Eurovignette is due as soon as such vehicles are used to travel on the public highway. The system is operated jointly with Belgium, the Netherlands (since 1.1.1996), Germany, Luxembourg and Denmark have a joint system for charging.

3. DENMARK

3.1 Taxes on vehicles

3.1.1 Registration tax

Private cars and certain commercial vehicles are subject to registration tax in connection with registration. The tax is charged on the basis of the retail sales price including customs duty, VAT and profit margin, but excluding the registration tax itself. For private passenger cars the tax is 105 % of the first Dkr 34.400 of the value and 180 % of the remaining value. For commercial cars that are constructed and equipped for the purpose of carriage of goods the tax varies according to the weight of the car and certain other characteristics. However, goods vehicles with a maximum gross laden weight exceeding 4 tonnes are exempt from the tax.

Registration tax on second hand cars being registered in Denmark for the first time is charged on the same basis as for new cars, but the actual retail price is estimated in a valuation procedure, where the car is compared to similar cars on the market having regard to all factors that might influence the price. The tax rate for second hand cars is the same as_for new cars with the adjustment of the Dkr 34.400 threshold which is reduced with age of the car. For example, a 6-year-old car would be taxed with a 105 % of the first Dkr 3.440 and 180 % of the remaining value.

The main policy objective is revenue raising, but it can not be excluded that the level of taxation limit the size of the car fleet. Side effects would then be reduced CO2 emissions, reduced level of pollution in general and to a certain degree reduced infra structure costs.

In addition there is also a fee of Dkr 800 (+25 % VAT) covering two number plates and the registration certificate.

In addition to registration tax all vehicles are subject to the standard rate of VAT, which currently stands at 25 %. The registration tax is not part of the tax base for VAT.

3.1.2 Annual road tax

An annual road tax is levied in connection with ownership of registered vehicles. A supplementary tax is levied on vehicles using fuel other than petrol. Both taxes are charged on basis of weight - dead weight or maximum permissible weight. The annual tax rate on a car weighing Dkr 1 500 (Dkr 2 000) kg is Dkr 3 917 (Dkr 5 424). The tax rate on a goods vehicle with a dead weight more than 9 000 kg is Dkr 71 per 100 kg.

Apart from raising revenue in general the tax is also seen as part of the principle, that users should pay their part of infrastructure and other costs in connection with use of roads. The revenue, however, is not earmarked.

3.2 Taxes on motor fuels

Taxes are levied on motor fuels at the following rates expressed in national currency.

Fuel	Unit	Excise	CO2-tax	Total
Leaded petrol*	1000 litres	3 920	0	3 920
Unleaded petrol*	1000 litres	3 320	0	3 320
Diesel	1000 litres	2 020	270	2 290
LPG	1000 litres	1 360	160	1 520
Natural gas	1 000 m^3	230	220	450
Biofuels**				

*Petrol sold from gas stations equipped for recycling petrol fumes get a refund of 30 Dkr per 1000 litres.

**Biofuels are subject to the excise applicable to motor fuels for the equivalent engine.

All motor fuels are liable to the standard VAT rate, which currently stands at 25 %.

Apart from revenue raising the taxation of fuels have the objective to reduce the amount of fuels used.

3.3 Insurance tax

There is a tax payable on the third-party insurance premium for insurance of motor vehicles. The tax rate is 50 % of the premium (exc. tax) - for certain buses only 40 %. Vehicles which are exclusively used for commercial carriage of goods are exempt.

3.4 Road user charges

A road user charge for heavy vehicles (over 12 tons) used for carriage of goods by road was introduced January 1st, 1995, within the frames of the Agreement between Luxembourg, Belgium, the Netherlands (since 1.1.1996), Denmark and Germany on the Common System of road user charge (The "Eurovignette"). For vehicles registered in Denmark, the charge is levied for the right to use the total road network. For vehicles registered outside Denmark the charge is levied for the right to use Danish motor ways. Heavy goods vehicles covered by the Eurovignette receive a reduction on the annual road tax.

4. SPAIN

4.1 Taxes on vehicles

4.1.1 Registration tax

An excise duty is charged on the definitive registration of a vehicle in Spain. The tax base for new vehicles is the same as for the VAT charged on purchase, i.e. price exclusive VAT . The tax base for second hand imported cars is their market value. Petrol (diesel) cars with an engine capacity exceeding 1 600 cc (2 000 cc) are liable at 12 %, while other cars are liable at 7 %.

The following vehicles are exempt from the tax:

- lorries and other vehicles intended exclusively for goods transport,
- buses and other vehicles intended for collective transport of passengers,
- vehicles within the public sector,
- vehicles intended exclusively for hire.

The registration tax was introduced not only for revenue purposes but also to meet the need to internalise the specific social costs generated by the private use of vehicles with regard to health, infrastructure and the environment.

In addition to registration tax all vehicles are subject to the standard rate of VAT, which currently stands at 16 %. VAT on the acquisition of a passenger car, of its parts and accessories is not deductible except for enterprises involved in the sale of motor vehicles.

4.1.2 Circulation tax

Motor vehicle tax: Motor vehicle tax is levied on all motor vehicles. The annual tax rate on private passenger cars ranges from PTA 2 100 for a car with less than 8 horsepower to PTA 14 910 for a car with more than 16 horsepower. The annual rate on lorries range from PTA 7035 (payload less than 1 000 kg) to PTA 24 675 (payload more than 9 999 kg). The purpose of the annual road tax is to provide revenue for the local authorities. Local authorities may increase the tax rate with a factor ranging from 1,6 to 2,0, depending on the size of the municipality.

Tax on economic activity: One part of the tax is a levy on automotive vehicles, which together with the motor vehicle tax, constitutes the framework for the minimum taxation of heavy goods vehicles (Directive 93/89/EEC).

The scheme of rates currently in force distinguishes between municipal, provincial or national charges according to the taxable person's type of activity. In the case of municipal rates, local authorities are entitled to impose a surcharge on the minimum rates. The rates can be reduced for firms with more than ten vehicles, the amount depending on the total number.

4.2 Taxes on motor fuels

Taxes on motor fuels are levied expressed in national currency at following rates.

Fuel	Unit	Excise	Total
Leaded petrol	1000 litres	64 800	64 800
Unleaded petrol	1000 litres	59 500	59 500
Diesel	1000 litres	43 200	43 200
LPG*	1000 kg	127 300	127 300
Natural gas	the rate of the fuel which it deemed to replace, i.e. in principle LPG		
Biofuels	the rate for the fuel which they are deemed to replace		

* A reduced rate is applied when LPG is used in local public transport pursuant to Article 1(5) of Council Decision 92/510/EEC of October 1992

All motor fuels are liable to the standard rate of VAT, which currently stands at 16 %.

The level of tax rates is arrived at by considering a whole series of policies together (revenue, infrastructure financing, environment, etc.)

4.3 Insurance tax

A charge is levied on all insurance contracts except life assurance and export credit insurance. The tax base is insurance premium and the rate is 5 ‰. The revenue from the charge is intended to subsidise the Insurance Undertakings Payments Board.

4.4 Road user charges

A toll is charged for the use of certain public highways. It is paid to the company operating the said highways.

4.5 Other charges associated with vehicles

The administrative body responsible for registration levies a charge inter alia on the following:

- Road fund licences PTA 8 950
- Change of ownership of vehicle PTA 5 600

5. GREECE

5.1 Taxes on vehicles

5.1.1 Registration tax

A special consumption tax, a once off special duty and value added tax are imposed on import of passenger and commercial vehicles from third countries as well as on shipment or transport of such vehicles from Member States of the European Union into Greece and manufacturing of vehicles in Greece. An additional import duty (at 10 %) is levied on those vehicles imported from third countries.

Private cars

The special consumption tax depend on the taxable value and the cylinder capacity. The taxable value is obtained by increasing the factory price (plus import duties for non EC vehicles) by 21 %. This percentage surcharge is applied accordingly in arriving at the taxable value for imposition of excise duty on domestically manufactured passenger motor vehicles. Furthermore the price is increased with a transportation and insurance coefficient. This coefficient is 7 % for vehicles of European origin and 25 % for vehicles from third countries. The excise duty on cars using conventional and second hand non-polluting technology ranges between 48 and 400 % of the taxable value. The correspondent rate on new non-polluting cars ranges between 10 and 75 %.

Furthermore, over the two year period 1991/1992, an incentive has been given by way of reduced excise duty, for new non-polluting passenger cars if the buyer trades in an old conventional motor vehicle.

The one off additional special classification duty is calculated according to taxable value and is levied as follows:

Up to 1 200 cubic centimetres	8 %
From 1 201 - 1 800 cubic centimetres	12 %
From 1 801 cubic centimetres and above	16 %

In addition to these excise duties VAT is levied at the standard rate of 18 %. The tax base is the retail price including all taxes (the special consumption tax) except VAT itself and the one off additional duty.

Commercial vehicles

The special consumption tax is calculated on the price for vehicles originating within the Community and on the price plus customs duty for other vehicles. The tax rate is calculated on cylinder capacity or type of vehicle. The tax rate range between

5 and 30 %. Electrically driven vehicles are exempt from excise duty. There are also exemptions relating to specific persons such as those emigrating, families with many children, invalids.

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5.1.2 Circulation tax

Circulation tax is levied on all vehicles. The tax on private vehicles is calculated in relation to engine rating, on coaches and buses in relation to number of seats and on commercial vehicles according to payload. For the first five years, the circulation tax is not imposed on "clean" cars provided that they are accompanied by documentary proof of the scrapping of an old vehicle. The annual road tax on private use passenger cars, motorcycles, caravans and Jeep-type vehicles ranges from DR 25 000 to DR 130 000. Lorries are liable to a tax equal to Dra 12,5 per kilogram useful load.

5.2 Taxes on motor fuels

Excise duty, expressed in national currency, on motor fuels is levied as follows.

Fuel	*Unit*	*Excise*
Leaded petrol	1 000 litres	127 000
Unleaded petrol with octane over 96,5	1 000 litres	121 000
Unleaded petrol with 96 octane	1 000 litres	111 000
Diesel	1 000 litres	77 000
LPG	1 000 kg	32 000
Natural gas		0
Biofuels		0

In addition motor fuels are subject to the standard rate of VAT, which currently stands at 18 %

5.3 Insurance tax

Motor vehicle insurance premiums are subject to a turnover tax of 10 % plus a stamp duty. The stamp duty is 2 % (plus a 20 % levy on behalf of the OGA [Agriculture Insurance Organisation]). Only private cars used by individuals must be insured. The Government and companies are not obliged to insure their motor vehicles.

5.4 Road user charges

A system of special road tolls applies and is collected directly from the user when travelling on the National Road Network. Factors taken into account in their calculation are the distances in kilometres travelled by the user, the type of motor vehicle and its axles. Vehicles owned by the Greek state and a number of other vehicles operated by public authorities are exempt from paying tolls.

5.5 Other charges associated with vehicles

A one-off contribution is payable to the state for the issue of a road licence for privately owned lorries with a open or closed body. The one-off contribution is also payable for a road licence issued for publicly owned lorries.

6. FRANCE

6.1 Taxes on vehicles

6.1.1 Registration tax

Motor vehicle registration certificates and all other motorised vehicles give rise to the payment of a local tax. The amount of tax is related to motor seize expressed in fiscal horse power. The tax rate is decided by the provinces. In 1995 the tax rate per horsepower varied between FF 95 and FF 195. The tax rate is reduced by half with respect to:

- commercial vehicles of a total laden weight in excess of 3,5 tons,
- non-agriculture tractors,
- motor cycles.

In addition to the local registration tax a para fiscal charge is levied when the registration certificates of new vehicles are issued. The revenue is set a side for the expansion of vocational training in the transport sector. The charge is only levied on goods public transport passenger vehicles. The amount of charge is as follows:

- motorised goods vehicles with a weight under 3,5 tons FF 148,
- motorised goods vehicles with a total weight between 3,5 and 6 tons FF 608,
- motorised goods vehicles with a total weight between 6 and 11 tons FF 912, and over 11 tons FF 1 368,
- Public transport passenger vehicles FF 1 368.

The purchase of private cars and commercial vehicles are subject to the normal rate of VAT, which currently stands at 20,6 %. The tax base being the invoice price at the time of sale of the vehicle.

6.1.2 Circulation tax

A circulation tax is levied on all motor vehicles with a weight less than 16 tonnes. The amount of tax depends on the fiscal horse power, the age of the car and the district in which it is registered. Diesel driven cars are given a preferential treatment. The tax rate on passenger cars is progressive. In addition to the circulation tax an extra tax is levied on passenger cars belonging to companies. The tax amounts to FF 5 880 per annum for a car not exceeding 7 fiscal horse powers and FF 12 900 for the others.

A special axle tax is levied on vehicles with a total weight over 16 tonnes. The amount of tax depends on the tonnage and the number of axles. Reduced rates apply to vehicles using a combination of road and trail. Furthermore reduction of tax is granted if long journeys are made on motor ways where vehicles have to pay toll.

6.2 Taxes on motor fuels

Taxes on motor fuels are levied at the following rates expressed in national currency:

Fuel	*Unit*	*Excise*	*FSH**	*CPDC***	*IFP****	*Total*
Leaded petrol	1 000 litres	4 035	3,90	1,15	19,2	4 059,25
Unleaded petrol	1 000 litres	3 762	3,90	1,15	19,2	3 786,25
Diesel	1 000 litres	2 328	3,90	1,15	19,2	2 352,25
LPG	1 000 litres	759	0	0	48,4	807,4
Natural gas	1000 cbm	636	0	0	6,0	642
Biofuels	1 000 litres	Tax exemption applies for some biofuels				

* Distribution tax

** Contributions to the Oil and Natural Gas Support Fund

*** Contributions to the French Petroleum Institute

All motor fuels are liable to the standard rate of VAT, which currently stands at 20,6%.

6.3 Insurance tax

A tax is levied on basic insurance premiums third party cover. The tax rate amount to 18 %. Commercial vehicles, with a total laden weight in excess of 3 500 kg are exempted from the tax.

6.4 Road user charges

Tolls are levied on usage of motor ways.

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7. ITALY

7.1 Taxes on vehicles

7.1.1. Registration tax

Registration taxes are applied on both national and provincial level. They are levied at each change of ownership. The amount of tax payable on national and regional level depends on:

- fixed rate on new cars, it varies in accordance with fiscal horsepower or payload for second hand vehicles. (passenger cars),
- payload (motor vehicles constructed to carry a load),
- payload (trailers for goods),
- number of seating (trailers for the carriage of passengers).

An additional provincial tax is levied at a minimum rate of 20% to a maximum of 80% of the State tax.

In addition to registration taxes, certain registration fees are also levied.

The purchase of private cars and commercial vehicles are subject to the normal rate of VAT, which currently stands at 19 %, except vehicles for disabled, which are subject to a VAT rate of 4 %. The registration tax is not part of the tax base for VAT.

7.1.2 Circulation tax

A circulation tax is levied on all motor vehicles registered in the motor vehicle registry. The basis of the charge are:

- engine rating (for private cars, buses and coaches),
- dead weight (commercial vehicles).

There is a basic charge laid down by national administration, part of which is reserved for the State and the other for the region in which the vehicle is registered. The regions are entitled to raise their part of the circulation tax. The tax rate on private cars, buses and coaches are progressive.

An extra annual tax is levied on vehicles equipped with radios. The tax varies according to the engine rating of the vehicle fitted (above 26 HP or under 26 HP, fiscal horsepower.

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7.2 Taxes on motor fuels

Excise duty is charged on motor fuels at the following levels expressed in national currency:

Fuel	*Unit*	*Excise*
Leaded petrol	1 litre	1111,49
Unleaded petrol	1 litre	1022,28
Diesel	1 litre	747,47
LPG	1 litre	591,64
Natural gas	1 cbm	0
Biofuels	1 litre	exempted

All motor fuels are liable to the standard rate of VAT, which currently stands at 19 %.

7.3 Insurance tax

A 12,5 % tax is imposed on insurance premiums.

7.4 Road user charges

Tolls are levied on the usage of motor ways.

7.5 Other taxes

An annual tax is levied on driving licenses.

8. IRELAND

8.1 Taxes on vehicles

8.1.1 Registration tax

Vehicle Registration Tax (VRT) is charged on the first registration of a vehicle in the State. The charge is payable when the vehicle is first registered or when it is subsequently converted in a way that places it in a different registration category which liable to a higher rate of tax. For passenger cars and certain small commercial vehicles VRT is charged as a percentage of the retail value including VAT ("open market selling price"). Cars with a engine capacity exceeding 2 500cc are liable at 29,25 %, while those with an engine capacity not exceeding 2 500cc are liable at 23,20 % (subject to a minimum charge of £250). Certain small commercial vehicles are liable at 13,3 % (subject to a minimum charge £100). Other commercial vehicles are liable to a flat rate of £40. The percentage rate of VRT chargeeable also varies accordingly to the vehicle weight and cargo capacity parameters for commercial vehicles. Motorcycles are liable at £ 2 per cc to a maximum of 350cc and £1 per cc thereafter (with age-related discounts). Certain types of special use vehicles and vehicles designed or constructed for off-road use are exempt from VRT.

From 1 July, 1995 to 31 December, 1997 a temporary scheme of relief is in operation whereby a person is repaid £1 000 of the VRT incurred on the purchase of a new car where that car replaced a scrapped car which was more than 10 years old. The scheme was first mooted as an environmental measure.

The purchase of private cars and commercial vehicles is subject to the standard rate of VAT, currently at 21%.

8.1.2 Circulation tax

Road tax is a periodic charge which may be paid for a period of three, six, or twelve months. The bases of the charge are cubic capacity of the engine (for cars), unladen weight (for commercial cars), seating capacity (for buses) and specialised usage and/or construction. The rates are progressive and vary according to the vehicle, but for the present not according to the region of registration.

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8.2 Taxes on motor fuels

Excise duty is charged on motor fuels, as of 23 January 1997, at the following rates expressed in national currency:

Fuel	*Unit*	*Excise duty*
Leaded petrol	1 000 litres	328.31
Unleaded petrol	1 000 litres	294.44
Super unleaded petrol	1 000 litres	324.17
Diesel	1 000 litres	262.55
LPG	1 000 litres	56.75
Natural gas	1000 cbm	0
Biofuels*	1 000 litres	262.55

*To date there is no commercial distribution of biofuels in the State.

All motor fuels are liable to VAT at the standard rate of 21 %.

8.3 Insurance tax

There is a 2 % stamp duty levy on motor insurance premiums.

8.4 Road user charges

No public tolls or user charges have been introduced in Ireland for the use of motor ways. At present there are two existing toll areas functioning under private investment.

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9. LUXEMBOURG

9.1 Taxes on vehicles

9.1.1 Registration tax

No registration tax is levied. However, a fee of FLUX 500 is payable at time of registration.

The purchase of private cars and commercial vehicles are subject to the normal rate of VAT, which currently stands at 15 %.

9.1.2 Circulation tax

Luxembourg currently applies a circulation tax to all motor vehicles which use the public highway, i.e. passenger cars, dual-purpose cars, minibuses, motorcycles, buses, coaches, HGVs, pickups, tractors, trailers and semi trailers. Fiscal liability begins with the use of the vehicle on the public highway. The rate of taxation is normally based on the following:

- Private cars: the amount of tax is proportionate to engine capacity on engine capacity, with a tax rate of FLUX 100 per 100 cc.
- Buses and coaches: the amount of tax depend of the unladen weight of the vehicle. The tax rate is regressive.
- Vans, lorries and road tractors with a maximum vehicle weight less than 12 tons: the amount of tax depend of the unladen weight of the vehicle. The tax rate is linear.

Lorries and road tractors with a maximum vehicle weight equal or more than 12 tons: the amount of tax depend of the weight of the vehicle, the number axles and the type of suspension.

9.2 Taxes on motor fuels

Excise duty is levied on motor fuels according to the following rates:

Fuel	*Unit*	*Excise*
Leaded petrol	1 000 litres	16 110
Unleaded petrol	1 000 litres	14 010
Diesel	1 000 litres	10 200
LPG	1 000 litres	4 100
Natural gas	1000 cbm	0
Biofuels	1 000 litres *	0

* Biofuels used in a pilot project for the purpose of the technological development of greener products are subject to exemptions from the excise duty.

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All motor fuels are liable to the standard rate of VAT, which currently stands at 15 %.

9.3 Insurance tax

No such tax is applied.

9.4 Road user charges

As from 1 January 1995 a road user charge called "Eurovignette" is levied in Luxembourg for vehicles for transport of goods with a maximum vehicle weight exceeding 12 tons (based on Directive 93/89/EEC). The road user charge system is part of an integrated toll system operated by the Netherlands, Belgium, Germany, Luxembourg and Denmark.

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10. NETHERLANDS

10.1 Taxes on vehicles

10.1.1 Registration tax

A registration tax, the B.P.M., is levied on all new passenger cars and motor cycles. The B.P.M. is calculated on the net list price, including profit margins but exclusive of taxes. It is calculated on the list price, separately from VAT. The amount of B.P.M. is obtained by using the following formula:

- petrol cars: (0,452xnet list price) - HFL 3 394 = amount of tax

- diesel cars: (0,452x net list price) - HFL 1 278 = amount of tax

The purchase of private cars and commercial vehicles are subject to the normal rate of VAT, which currently stands at 17.5 %. The tax base being the price exclusive of taxes

10.1.2 Circulation tax

The road tax is established on the basis of the type of vehicle, its dead-weight, the type of fuel used and the region. However, the road tax on commercial vehicles does not differ between regions.

10.2 Taxes on motor fuels

Three different types of tax apply to fuel. The excise duty, an environmental tax (WBM) and a tax on stock (COVA). The total level (in guilders) of indirect taxation is shown below.

Fuel	*Unit*	*Excise*	*COVA-levy***	*WBM****	*Total*
Leaded petrol	1 000 litres	1 262,50	12,50	25,10	1 300,1
Unleaded petrol	1 000 litres	1 119,80	12,50	25,10	1 157,4
Diesel	1 000 litres	657,30	12,50	27,70	697,5
LPG	1 000 kg	78,72	0	33,08	111,80
Natural gas*	1000 cbm	0	0	85,55	85,55
Biofuels	1 000 litres				

**The COVA-levy is destined to finance emergency stockpiles.

***Energy and carbon dioxide tax where the rates are based on carbon (50 %9 and energy (50 %) content.

All motor fuels are subject to VAT at the standard rate of 17,5 %

10.3 Insurance tax

A tax on motor insurance premium is levied, currantly at the rate of 7 %.

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10.4 Road user charges

As from 1 January 1996 a road toll called "Eurovignette" is levied in the Netherlands for vehicles for transport of goods with a maximum vehicle weight exceeding 12 tons (based on Directive 93/89/EEC). The road toll system is part of a integrated toll system operated by the Netherlands, Belgium, Germany, Luxembourg and Denmark.

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11. AUSTRIA

11.1 Taxes on vehicles

11.1.1 Registration tax

A special registration tax is levied on new passenger cars and motor bicycles (and on old ones, if these are registered for the first time in Austria). The tax rate, in per cent, for a passenger car is calculated according to the standardised fuel consumption of that car. The tax rate (in per cent) on motor cycles depends on the cubic capacity.

Passenger cars:

Petrol cars: Tax rate = ((fuel consumption according to 93/116/EEC) - 3 litres)x2%

Diesel cars: Tax rate = ((fuel consumption according to 93/116/EEC) - 2 litres)*2%

Motor bicycles:

Tax rate = ((cubic capacity - 100 ccm)*0,02%

The amount of tax payable is calculated by applying the tax rate to the retail price excluding VAT itself. The maximum rate is 16%.

The purchase of private cars and commercial vehicles is subject to the normal rate of VAT, which currently stands at 17.5 %, the tax base being the retail price including all taxes (registration tax) excluding VAT.

11.1.2 Circulation tax

A vehicle tax is levied on all vehicles (passenger cars, trucks, motor bicycles, trailer, etc.). But there exist several exemptions (e.g. buses, vehicles of the administration, vehicles owned by disabled persons, ambulances, etc.). The amount per month is as follows:

- Passenger cars and cars up to 3 500 kg: ((HP in kW)*5 ATS[1]
- Motor bicycles: ccm*0,20 ATS[2]
- Other vehicles with a gross laden weight over 3 500 kg: gross laden weight (tonne)*70 to 85 ATS (depending on the gross laden weight)

Special reductions of circulation tax apply to vehicles with a gross laden weight over 3 500 kg used in combination with railway transport.

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1 Ranging from 5 to 5.5 ATS depending on if the tax is paid monthly, quaterly or once a year.

2 Ibidem

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11.2 Taxes on motor fuels

Excise duty on motor fuels applies at the following rates, expressed in national currency:

Fuel	*Unit*	*Excise*
Leaded petrol	1 000 litres	6 600
Unleaded petrol	1 000 litres	5 610,4
Diesel	1 000 litres	3 890
LPG*	1 000 kg	3 600
Natural gas*	1000 cbm	600
Biofuels	1 000 litres	180

All motor fuels are subject to VAT at the standard rate of 20%

11.3 Insurance tax

– Motor vehicle insurance policies are subject to a tax of 11 % of premium paid.

11.4 Road user charges

According to Directive 93/89/EEC road user charges are levied on vehicles for transport goods with a maximum gross laden weight exceeding 12 tons.

The tax rate depends on the gross laden weight and the duration of the use of the road. The Accession to the European Union provided Austria with the right, until the end of 1996, to levy road user charges at a higher level than the rates laid down in Directive 93/89/EEC. At the beginning of 1997 Austria had to reduce these charges according to regulations of above mentioned directive.

With the beginning of 1997 Austria introduced a road toll, "Vignette" on high ways levied on all other vehicles that are not covered by the harmonised road user charge, e.g. passenger cars, omnibuses, trucks with a weight less than 12 tonne and motor bicycles. The toll rate depends on the duration of use and the type of vehicle. For passenger cars the toll amounts to 550 ATS a year and for buses 6 000 ATS a year. Vignettes can also be purchased for shorter periods (e.g. monthly or weekly).

12. PORTUGAL

12.1 Taxes on vehicles

12.1.1 Registration tax

Vehicle tax is collected for the registration of the vehicle. The vehicle taxation rates are progressive in accordance with the level of cylinder capacity. Reduced rates apply to second hand cars . The tax is collected by the state but it is distributed to the municipalities in the area of the owners of the vehicle. The tax is reduced with 50 % on vehicles registered in Azores and Madeira.

In addition to registration tax all vehicles are subject to the standard rate of VAT, which currently stands at 17 %. Vehicle tax is included in the tax base for VAT.

Apart from the vehicle tax an ownership registration fee is collected. The fee is collected at the time of the first registration of the vehicle, as well as subsequent registrations and amounts to Esc 5 607.

12.1.2 Circulation tax

Municipal tax on vehicles

A circulation tax is levied on lightweight passenger cars lightweight mixed cars of a gross weight equal to or less than 2 500 kg and motorcycles. Calculation of the tax for cars is based on the fuel used, the cylinder capacity of the engine, the voltage (for electrical driven cars) and the age. For motorcycles the tax base is defined by the engine cylinder capacity and the age. The vehicles of the greatest cylinder capacity and of the lowest age are subject to the highest tax. A number of users are exempt, for example public authorities.

The tax is collected by the state but it is distributed to the municipalities in the area of the owners of the vehicle.

Circulation tax

Circulation tax is levied upon the use of vehicles for the transport of goods for personal use or the activity of hiring of vehicles without a driver, when the latter are for private transport. The amount of the tax is determined in accordance with the gross weight of the respective vehicles, in correlation with the wear and tear of the infrastructures. The rates, as a result, are progressive.

Truck tax

The same tax as above but levied on the use of vehicles for public road transport or the activity of hiring of vehicles without a driver, when the same are for public transport. The amount of tax is determined in accordance with the gross weight of the respective vehicle

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12.2 Taxes on motor fuels

Excise duty on motor fuel is applied according to the following rates, expressed in national currency:

Fuel	*Unit*	*Excise*
Leaded petrol	1 000 litres	98 300
Unleaded petrol	1 000 litres	91 500
Diesel	1 000 litres	52 000
LPG	1 000 kg	20 000
Natural gas	1 000 kg	20 000
Biofuels	1 000 litres	(a)

a) the rate for substitute traditional fuel applies

LPG and natural gas consumed by public transport are exempt from excise duty. Diesel used by agriculture is liable to a reduced rate of Esc 21 400.

In addition motor fuels are subject to the standard rate of VAT, which currently stands at 17%.

12.3 Insurance tax

A stamp tax is payable on the value of car insurance, the rate of which is 5 %.

12.4 Road user charges

A system of tolls is applied on approximately 800 km of the Portuguese motor way network. Toll tariffs are adjusted annually in accordance with the rate of inflation.

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13. FINLAND

13.1 Taxes on vehicles

13.1.1 Registration tax

A car tax is levied on passenger cars, delivery vans and other cars weighing less than 1 875 kg and on motor cycles. The tax is levied before the first registration or use of the vehicle in Finland. The basis of the tax is the value of the vehicle. The tax amount to 100 % of the tax base minus 4 600 FM. Vehicles with low emissions get a reduction of 4 500 FM. However, the tax charged always correspond to at least 50 per cent of the value of the car. Motorcycles are taxed on the basis of the engine capacity.

In addition to car tax all vehicles are subject to the normal rate of VAT, which currently stands at 22 %. The registration tax is included in the taxable value concerning VAT.

13.1.2 Circulation tax

A circulation tax applies to diesel driven cars. However, for the 1994 - 1996 there has been a temporary annual road tax for all passenger cars and delivery vans. (It is likely that it will be abandoned. It was introduced to finance reduction of the registration tax in 1993. The permanent annual road tax on diesel driven cars is motivated by the relative low level of excise duty on diesel fuel compared to petrol.

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13.2 Taxes on motor fuels

The total amount of excise duty on motor fuels is made up by a basic duty, an additional duty and a strategic stockpile fee. The additional duty is based 100 per cent on the content of carbon.. The duty based on the content of coal is 70 FM per tonne of Carbon dioxide. Tax rates are presented below.

Fuel	*Unit*	*Basic duty*	*Additional duty*	*Strategic stockpile fee*	*Total amount of excise duty*
Leaded petrol normal grade	1 000 litres	3 419	164	40	3 623
Leaded petrol reformulated	1 000 litres	3 369	164	40	3 573
Unleaded petrol, normal grade	1 000 litres	2 969	164	40	3 173
Unleaded petrol, reformulated	1 000 litres	2 919	164	40	3 123
Diesel, normal grade	1 000 litres	1 599	186	40	1 825
Diesel, very low sulphur content	1 000 litres	1 449	186	40	1 675
LPG*	1 000 kg	0	0	0	0
Natural gas (a)	1000 m^3	112			112
Biofuels (b)	1 000 litres				

a) A reduced rate at 50 % applies during 1.1.1995 - 31.12.1997

b) the rate for substitute traditional fuel applies

The tax rate on fuels are differentiated on an environmental basis. Different rates have applied on leaded and unleaded petrol for many years. Since 1992 there has been a different level for reformulated petrol (oxygenated petrol) and for diesel fuel which is almost sulphur free.

In addition motor fuels are subject to the standard rate of VAT, which currently stands at 22%. There is no different treatment between private and commercial use. However, working machines (cranes, trucks, road machines etc.) and agriculture tractors are allowed to use low taxed gas oil (marked gas oil). The large majority of fuels sold belong to the environmentally better grades.

13.3 Insurance tax

A special tax applies to insurance contracts. The tax rate is 22 % (same percentage as the standard VAT rate)

13.4 Road user charges

No such taxes are applied in Finland.

14. SWEDEN

14.1 Taxes on vehicles

14.1.1 Registration tax

The sales tax on motor vehicles is levied at the registration of the vehicle in the national vehicle register. The tax is charged according to its environmental classification. Vehicles that fulfil existing mandatory exhaust emissions requirements belongs to class 3. Environmental class 2 and 1 require that vehicles fulfil more stringent emission standards. In 1996 the tax on passenger cars was abolished.

Environmental class	*Buses and light trucks* G.V.W* ≤ 3 500 kg	*Light trucks with flat top* G.V.W* ≤ 3 500 kg	*Buses and trucks* G.V.W* > 3 500 kg
Environmental class 1	6,38 SEK per kg of kerb weight	3 986 SEK	0
Environmental class 2	6,38 SEK per kg of kerb weight	3 986 SEK	0
Environmental class 3	6,38 SEK per kg of kerb weight + 1 993 SEK	5 978 SEK	5 978 SEK

*G.V.W = Gross Vehicle Weight

Sales tax on motor cycles are levied with SEK 1 335 if the kerb weight not exceeds 75 kg; with SEK 1 754 if the kerb weight exceeds 75 but not 160 kg; with SEK 2 690 if the kerb weight exceeds 160 but not 210 kg; and with SEK 4 464 in all other cases.

At the time of registration a scrapping fee is levied on passenger cars, buses and light trucks without a flat top with a gross weight not exceeding 3 500 kg. The fee is SEK 1 300 for all vehicles. The revenue from the scrapping fee is used to finance a scrapping premium, which is paid to the owner when the car is scrapped at an authorised car breaker.

VAT is levied on purchase and rental of cars and motorcycles. The present VAT rate is 25 %. VAT is calculated on sales price exclusive of VAT but inclusive of all other taxes and charges. for example the sales tax. Only a taxable person who perform, on a commercial basis, passenger transportation, sell or lease passenger cars or has a driving school is entitled to deduct VAT paid in connection with the purchase of the car or the motorcycle. That person, except from the one who sells cars or motor cycles, is also entitled to full deduction of VAT paid on rental or leasing costs. For other taxable persons the right to deduct VAT on rental or leasing costs is limited to 50 %. On operating expenses there are no limitations in the right to deduct VAT and no division with respect to the private use of the vehicle is required.

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14.1.2 Circulation tax

Circulation tax (vehicle tax)is levied as a fixed annual tax on passenger cars, lorries, buses, motor cycles, tractors, motor implements, heavy cross-country vehicles and trailers, with the exception of heavy semi-trailers.

The tax rate depends on the tax weight. Tax weight for passenger cars, motor cycles, tractors and motor implements is defined as the kerb weight. For other vehicles, with some exceptions, tax weight is defined as the gross laden weight.

Motor vehicles 30 years or older are exempt from the tax. Passenger cars and lorries and buses with a tax weight not exceeding 3 500 kg, belonging to environmental class 1, are exempt from vehicle tax for the first five years from initial liability to tax. The annual vehicle tax is SEK 384 lower on passenger cars registered in certain sparsely-populated areas.

Examples of vehicle tax rates

Type of vehicle	*Fuel*	*Tax weight kg*	*Vehicle tax SEK/year*
Passenger car	petrol	1 200	1 032
Passenger car, model 93 and earlier	diesel	1 200	2 062
Passenger car, model 94 and later	diesel	1 200	3 952
Lorry[1]	diesel	16 000	18 604
Lorry[2]	diesel	16 000	10 062
Trailer[3]	---	20 000	9 056
Bus	diesel	16 000	1 645
Tractor class 1, (road tractor)	petrol or diesel	6 000	4 115
Tractor class 2 (agriculture tractor)	petrol or diesel	---	225

1. 2-axled with attachmentv for a semi-trailer
2. 2-axled without attachment for a semi-trailer
3. 2-axled, towed by diesel driven vehicle, not semi-trailer

14.2 Taxes on motor fuels

The carbon dioxide tax is strictly proportional to the carbon content of each fuel. The energy tax rates on diesel depend on precise technical characteristics such as the content of sulphur and aromatics. The energy tax on unleaded petrol is also differentiated according to environmental categories. The reduced rate of environmental class 2 is linked to established technical characteristics including sulphur, lead, benzene and phosphorus contents. Unleaded petrol which does not comply with these characteristics is charged with a higher rate of energy tax (environmental class 3). The current excise duties expressed in national currency are:

Fuel	*Unit*	*Energy tax*	*Carbon dioxide tax*	*Total*
Petrol				
leaded petrol	1 000 litres	4 030	860	4 890
unleaded class 2	1 000 litres	3 410	860	4 270
unleaded class 3	1 000 litres	3 470	860	4 330
Diesel				
class 1	1 000 litres	1 524	1 050	2 574
class 2	1 000 litres	1 736	1 050	2 786
class 3	1 000 litres	2 018	1 050	3 068
LPG	1 000 litres	950	550	1 500
Natural gas*	1 000 m^3	1 584	785	2 369
Biofuels*	1 000 litres	shall be taxed at the rate of the equivalent fuel		

*Certain reductions in tax rates apply for natural gas and biofuels used for certain pilot projects

The above presented tax rates apply also on fuel used for tractors, excavators, trucks and other off-road vehicles. All motor fuels are liable to the general VAT rate of 25 per cent.

14.3 Tax on traffic insurance

No corresponding tax applies.

14.4 Road tolls or other user charges

Sweden is planning to introduce a motor way charge (Eurovignette system).

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15. UNITED KINGDOM

15.1 Taxes on vehicles

15.1.1 Registration tax

No such tax applies. A car tax was introduced in 1973 to make good the loss of revenue on new cars when UK Purchase Tax at 25 per cent was replaced by VAT at 10 per cent. The Purchase Tax rate was reduced from 10 to 5 per cent in March 1992 and abolished in November 1992.

15.1.2 Circulation tax

Circulation tax (Vehicle Excise Duty, VED) is levied on all vehicles. The tax is payable if a vehicle is used or is kept on public roads. The basis of charge depend on type of vehicle:

- Cars and light vans pay VED at a flat rate of £145 per year.

- Motor cycles and tricycles are taxed according to the cylinder capacity of the vehicle.

- Heavy goods vehicles are taxed according to weight and the number and configuration of axles

- Buses are taxed according to seating capacity

There are exemptions for a range of vehicles including those used by the emergency services, vehicles used by disabled drivers, vehicles used for agriculture purposes for journeys not exceeding 1,5 km and classic vehicles.

As with other taxes, a wide range of factors are considered in setting the structures and rates of VED. These include: The need to raise revenue while minimising economic distortions; the impact of taxation of the tax on inflation; the transport costs of the haulage sector; and the costs of other forms of transport.

15.2 Taxes on motor fuels

Present tax rates are presented below:

Fuel	*Unit*	*Excise duty*
Leaded petrol	1 000 litres	416,80
Unleaded petrol	1 000 litres	368,60
Super unleaded	1 000 litres	402
Diesel	1 000 litres	368,60
LPG*	1 000 kg	211,30
Natural gas	1000 m^3	211,30
Biofuels (a)	1 000 litres	

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a) Biofuels are taxed at the same rate as the fuel which they are replacing.

In addition motor fuels are subject to the standard rate of VAT, which currently stands at 17,5 %.

Certain types of vehicles which would normally be fuelled by diesel, e.g. road construction vehicles, agriculture tractors, etc. enjoy a concession which allows them to use the much cheaper rebated gas oil (£ 25 per 1000 litres). The types of vehicles entitled to this concession are strictly defined in legislation.

The Government has stated its intention to increase road fuel duties on average by at least five per cent in real terms in future Budgets.

The government has made provisions to introduce a lower rate of duty on ultra low sulphur diesel (not exceeding 50 parts per million) of £ 358,6 per 1 000 litres, subject to approval by the Council of a derogation.

15.3 Insurance tax

Insurance premium tax is charged at a rate of 2,5 per cent on most types of general insurance premiums including motor vehicle premiums. It is not dependent upon the type of vehicle or the use to which the vehicle is put. The tax is applicable to both commercial and private vehicle premiums. With effect from 1 April 1997 the Insurance Premium Tax rate increased to 4 per cent and a higher rate of 17,5 per cent (equivalent to the standard VAT rate) was introduced for insurance sold by certain suppliers of goods and services liable to VAT. Insurance, typically mechanical breakdown insurance, sold by car dealers is one category of insurance to which this higher rate is applied. However, ordinary motor insurance is subject to the standard rate of 4 per cent.

15.4 Road user charges

The United Kingdom currently employs road tolls on a range of private and public bridges. A private toll road proposal for the North Birmingham Relief Road is currently under consideration at public enquiry. The Government is also investigating the possibilities of introducing electronic tolling on motor ways and congestion charging in urban areas.

ANNEX B: TAXES ON AQUISITIONS AS OF JANUARY 1997

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REGISTRATION AND SIMILAR TAXES APPLIED TO PASSENGER CARS BY MEMBER STATES AS OF JANUARY 1997

Member State	Type of tax	Basis of charge	Rates	Notes
BELGIUM	Registration Tax "Taxe de mise en circulation"	Fiscal horsepower	New: 2.500 to 200.000 BFR	- Payable on each registration of a vehicle
DENMARK	Registration Tax	Sale price	105 % of first 34.400 DKR 180 % of balance	For used vehicles, the threshold of 34.400 DKR is reduced by age
GREECE	1) Special Consumption Tax	Combination of value and c.c.	New : up to 75 % of taxable value Used: up to 475 % of taxable value	Taxable value = FOB + importer's commission (21 %) + freight and insurance (7 % or 25 %)
	2) Registration Tax	Taxable value	Under 1200cc: 8 % 1201 to 1800cc: 12 % over 1800cc: 16 %	
SPAIN	Special tax on registration	New: as for VAT Used: market value	Under 1 600 cc (petrol) or <2 000cc (diesel): 7 % Over 1 600cc (petrol) or 2 000 cc (diesel): 12 %	
FRANCE	Registration Tax	Fiscal horsepower	Between FF 95 and FF 195 per horsepower	Levied by provinces
IRELAND	Registration Tax	Market value	Up to 2500cc: 23,2 % Over 2500cc: 29,25 %	
ITALY	Registration Tax	Fiscal horse power	New cars: ITL 270 000 and ITL 702 000. Second hand cars: between ITL 270 000 and ITL 702 000	Levied by the state and provinces. Payable at each change of ownership It varies in accordance with fiscal horse power
NETHERLANDS	Registration Tax	Net list price	Petrol : (price x 0,452) - 3,394 DFL Diesel: (price x 0,452) - 1,278 DFL	
AUSTRIA	Fuel Consumption Tax	Value and fuel consumption	0 to 16 % depending on fuel consumption	
PORTUGAL	Vehicle Tax (payable in advance of registration)	Motor capacity	From 626 Esc to 2186 Esc per c.c., subject to a reduction from total	e.g.: 1200 c.c. car: (1200 x 626 Esc) - 405 465 = 345 735 Esc Limited reduction for used cars
FINLAND	Automobile Tax	Value	100 % of value, less 4,600 FMK	Minimum tax of 50 % of value

No corresponding tax is applied by Germany, Sweden, Luxembourg and United Kingdom.

ANNEX C: TAXES ON OWNERSHIP AS OF JANUARY 1997

Circulation taxes on passenger cars applied in Member States 1997

Member State	Type of tax	Basis of charge passenger cars	Notes
Belgium	1) Circulation tax	Cubic capacity - progressive tax rate	
	2) Compensatory tax	Cubic capacity - progressive tax rate	Only levied on diesel driven cars
Germany	Circulation tax	Cubic capacity	Increased rates for cars not fulfilling emission criteria
Denmark	Circulation tax	Weight of vehicle - progressive tax rate	A supplementary tax is levied on vehicles using other fuel than petrol
Spain	1) Motor vehicle tax	Cubic capacity and the district of registration progressive tax rate	Local authorities may increase the tax with up to a factor 2
	2) Tax on economic activity		One part of the tax is a levy on automotive vehicles
Greece	Circulation tax	Cubic capacity - progressive tax rate	For the first five years the circulation tax is not imposed on "clean cars" provided that they are accompanied by documentary proof of scrapping of an old vehicle
France	Circulation tax	Engine rating (fiscal power), the age of the car, type of fuel and the district in which it is registered. progressive tax rate	Reduced tax for diesel driven vehicles
Italy	Circulation tax	Fiscal horse power and district of registration. Progressive tax rate	A part of the tax rate is decided locally
Ireland	Circulation tax	Cubic capacity. Progressive tax rate	
Luxembourg	Circulation tax	Cubic capacity	
Netherlands	Circulation tax	Dead weight of vehicle, province of registration and fuel used	Increased rate on diesel cars. Reduced rate electric cars.
Austria	Circulation tax	Power of motor. Progressive tax rate	
Portugal	Municipal tax on motor vehicles	Fuel used, cubic capacity, the voltage when driven by electricity and age of vehicle. Progressive tax rate.	Tax rate independent of district of registration, but revenue allocated to the municipalities of the owner of the vehicle
Finland	Circulation tax Windscreen sticker	Total weight of vehicle Age of vehicle	Only levied on diesel driven vehicles Temporary tax levied 1994 - 1996
Sweden	Circulation tax	Curb weight of vehicle	Increased rates on diesel driven cars. A five year exemption for cars that fulfil certain emission criteria. Vehicles 30 years or older are exempt from the tax.
United Kingdom	Circulation tax	Lump sum tax. Tax rate equal for all passenger cars	

TAX ON MOTOR INSURANCE PREMIUMS APPLIED IN MEMBER STATES 1997

Member State	Basis of charge	Rates	Exemptions	Notes
BELGIUM	Premium paid	9,25 % on all types of motor vehicle insurance.	Heavy goods vehicles get a reduction to 1,4 % on compulsory insurance.	
GERMANY	Premium paid	15 %		Levied on all types of insurance not only motor vehicle ???
DENMARK	Premium paid	General rate 50 % Certain buses 40 %	Commercial carriage of goods exempt from the tax	Levied only on the third party motor insurance policy.
GREECE	1) Premium paid 2) Premium paid	10 % 2 % stamp duty	Only private cars used by individuals must be insured	
SPAIN	Premium paid	5 permillage		Levied on all insurance contracts except life assurance and export credit insurance
FRANCE	Premium paid	18 %	Commercial vehicles (laden weight over 3,5 tonnes) are exempt from the tax.	
ITALY	Premium paid	12,5 %		
IRELAND	Premium paid	2 %		Levied on all non-life insurance policies
LUXEMBOURG	Premium paid	4 %		
NETHERLANDS	Premium paid	7 %		
AUSTRIA	Premium paid	11 %		Levied on all insurance policies
PORTUGAL	Premium paid	5 %		
FINLAND	Premium paid	22 %		
UNITED KINGDOM	Premium paid	2,5 %		Levied on most types of general insurance premiums

No corresponding tax is levied in Sweden

ANNEX D: REVENUE FROM VEHICLE RELATED TAXES

NB: Information on revenue from road tolls in France, Belgium, Luxembourg, Greece and the United Kingdom is missing. Information on revenue from tax on motor insurance premium is also missing from Portugal, Luxembourg, Ireland, Italy, Greece.

REVENUE FROM VEHICLE RELATED TAXES 1993

A. AS A PERCENTAGE OF GDP

	Registration tax	Ciculation tax	Petrol tax	Diesel tax	Insurence tax	Road tolls	Total
Austria	0,15%	0,22%	1,05%	0,42%	0,18%	0,45%	2,47%
Belgium	0,11%	0,43%	0,88%	0,62%	0,12%	0,00%	2,16%
Denmark	0,91%	0,48%	0,64%	0,18%	0,10%	0,00%	2,32%
Finland	0,33%	0,18%	1,19%	0,39%	0,16%	0,00%	2,25%
France	0,09%	0,22%	1,02%	0,62%	0,33%	0,00%	2,28%
Germany	0,00%	0,45%	1,09%	0,49%	0,15%	0,00%	2,18%
Greece	0,58%	0,24%	1,88%	0,97%	0,00%	0,00%	3,67%
Ireland	0,61%	0,69%	1,09%	0,64%	0,00%	0,00%	3,02%
Italy	0,05%	0,09%	1,28%	0,60%	0,00%	0,32%	2,33%
Luxembourg	0,00%	0,00%	1,94%	1,41%	0,00%	0,00%	3,35%
Netherlands	0,57%	0,87%	0,93%	0,53%	0,00%	0,00%	2,90%
Portugal	0,75%	0,10%	1,47%	1,09%	0,00%	0,21%	3,62%
Spain	0,21%	0,24%	1,03%	0,69%	0,01%	0,20%	2,37%
Sweden	0,09%	0,28%	1,50%	0,33%	0,00%	0,00%	2,20%
UK	0,00%	0,56%	1,39%	0,55%	0,00%	0,00%	2,51%

B. AS A PERCENTAGE OF TOTAL TAXATION (INCL. SOCIAL SECURITY CONTRIBUTIONS), GENERAL GOVERNMENT

	Registration tax	Circulation tax	Petrol tax	Diesel tax	Insurence tax	Road tolls	Total
Austria	0,34%	0,50%	2,34%	0,93%	0,41%	1,01%	5,53%
Belgium	0,25%	0,94%	1,93%	1,36%	0,26%	0,00%	4,75%
Denmark	1,82%	0,96%	1,28%	0,36%	0,19%	0,00%	4,61%
Finland	0,73%	0,40%	2,61%	0,85%	0,35%	0,00%	4,95%
France	0,20%	0,50%	2,33%	1,41%	0,75%	0,00%	5,20%
Germany	0,00%	1,05%	2,57%	1,16%	0,35%	0,00%	5,14%
Greece	1,90%	0,78%	6,11%	3,14%	0,00%	0,00%	11,92%
Ireland	1,70%	1,91%	3,03%	1,77%	0,00%	0,00%	8,42%
Italy	0,11%	0,22%	2,93%	1,37%	0,00%	0,73%	5,36%
Luxembourg	0,00%	0,00%	4,40%	3,21%	0,00%	0,00%	7,61%
Netherlands	1,18%	1,80%	1,91%	1,10%	0,00%	0,00%	5,99%
Portugal	2,11%	0,28%	4,15%	3,08%	0,00%	0,59%	10,22%
Spain	0,57%	0,64%	2,81%	1,89%	0,02%	0,53%	6,46%
Sweden	0,17%	0,56%	2,97%	0,66%	0,00%	0,00%	4,37%
UK	0,01%	1,70%	4,20%	1,68%	0,00%	0,00%	7,59%

REVENUE FROM VEHICLE RELATED TAXES 1994

A. AS A PERCENTAGE OF GDP

	Registration tax	Circulation tax	Petrol tax	Diesel tax	Insurence tax	Road tolls	Total
Austria	0,07%	0,20%	1,03%	0,43%	0,34%	0,45%	2,52%
Belgium	0,14%	0,42%	0,88%	0,65%	0,12%	0,00%	2,21%
Denmark	1,43%	0,46%	0,66%	0,31%	0,10%	0,02%	2,99%
Finland	0,40%	0,29%	1,24%	0,47%	0,13%	0,00%	2,54%
France	0,10%	0,22%	1,04%	0,73%	0,33%	0,00%	2,42%
Germany	0,00%	0,43%	1,18%	0,55%	0,17%	0,00%	2,33%
Greece	0,52%	0,14%	1,74%	0,77%	0,00%	0,00%	3,17%
Ireland	0,78%	0,67%	1,09%	0,68%	0,00%	0,00%	3,22%
Italy	0,05%	0,08%	1,34%	0,69%	0,00%	0,33%	2,48%
Luxembourg	0,00%	0,07%	2,12%	1,50%	0,00%	0,00%	3,70%
Netherlands	0,60%	0,82%	0,95%	0,58%	0,00%	0,00%	2,95%
Portugal	0,87%	0,11%	1,53%	1,14%	0,00%	0,24%	3,88%
Spain	0,22%	0,22%	1,02%	0,73%	0,01%	0,20%	2,18%
Sweden	0,11%	0,27%	1,44%	0,31%	0,00%	0,00%	2,13%
UK	0,00%	0,57%	1,43%	0,64%	0,01%	0,00%	2,65%

B. AS A PERCENTAGE OF TOTAL TAXATION (INCL. SOCIAL SECURITY CONTRIBUTIONS), GENERAL GOVERNMENT

	Registration tax	Ciculation tax	Petrol tax	Diesel tax	Insurence tax	Road tolls	Total
Austria	0,15%	0,46%	2,34%	0,98%	0,76%	1,03%	5,73%
Belgium	0,30%	0,91%	1,88%	1,39%	0,26%	0,00%	4,72%
Denmark	2,77%	0,89%	1,27%	0,61%	0,19%	0,05%	5,77%
Finland	0,85%	0,60%	2,60%	0,99%	0,28%	0,00%	5,32%
France	0,22%	0,50%	2,36%	1,67%	0,74%	0,00%	5,49%
Germany	0,00%	1,00%	2,77%	1,29%	0,40%	0,00%	5,46%
Greece	1,63%	0,45%	5,48%	2,42%	0,00%	0,00%	9,98%
Ireland	2,12%	1,83%	2,97%	1,85%	0,00%	0,00%	8,77%
Italy	0,12%	0,20%	3,29%	1,69%	0,00%	0,81%	6,10%
Luxembourg	0,00%	0,16%	4,79%	3,40%	0,00%	0,00%	8,35%
Netherlands	1,28%	1,76%	2,04%	1,25%	0,00%	0,00%	6,33%
Portugal	2,45%	0,32%	4,31%	3,22%	0,00%	0,67%	10,96%
Spain	0,59%	0,61%	2,79%	2,02%	0,02%	0,54%	5,98%
Sweden	0,22%	0,53%	2,89%	0,62%	0,00%	0,00%	4,27%
UK	0,00%	1,69%	4,26%	1,90%	0,02%	0,00%	7,88%

Revenue from vehicle related taxes 1995

A. As a percentage of GDP

	Registration tax	Circulation tax	Petrol tax	Diesel tax	Insurence tax	Road tolls	Total
Austria	0,13%	0,20%	1,14%	0,49%	0,32%	0,38%	2,67%
Belgium	0,13%	0,41%	0,82%	0,67%	0,13%	0,00%	2,15%
Denmark	1,54%	0,45%	0,76%	0,32%	0,10%	0,03%	3,21%
Finland	0,49%	0,31%	1,28%	0,52%	0,12%	0,00%	2,72%
France	0,10%	0,22%	0,99%	0,74%	0,33%	0,00%	2,37%
Germany	0,00%	0,40%	1,15%	0,55%	0,20%	0,02%	2,32%
Greece	0,56%	0,29%	1,62%	0,74%	0,00%	0,00%	3,20%
Ireland	0,76%	0,65%	1,03%	0,67%	0,00%	0,00%	3,10%
Italy	0,05%	0,08%	1,37%	0,76%	0,00%	0,30%	2,56%
Luxembourg	0,00%	0,07%	1,98%	1,33%	0,00%	0,00%	3,38%
Netherlands	0,62%	0,78%	0,95%	0,58%	0,00%	0,00%	2,93%
Portugal	0,87%	0,12%	1,48%	1,21%	0,00%	0,24%	3,91%
Spain	-0,19%	0,21%	0,98%	0,78%	-0,01%	0,18%	2,16%
Sweden	0,12%	0,25%	1,29%	0,30%	0,00%	0,00%	1,96%
UK	0,00%	0,57%	1,41%	0,72%	0,03%	0,00%	2,73%

B. As a percentage of total taxation (incl. social security contributions), General government

	Registration tax	Circulation	Petrol tax	Diesel tax	Insurence tax	Road tolls	Total
Austria	0,30%	0,46%	2,61%	1,12%	0,74%	0,87%	6,10%
Belgium	0,28%	0,88%	1,74%	1,43%	0,27%	0,00%	4,60%
Denmark	3,01%	0,89%	1,49%	0,62%	0,19%	0,06%	6,25%
Finland	1,05%	0,67%	2,76%	1,12%	0,27%	0,00%	5,86%
France	0,21%	0,49%	2,22%	1,67%	0,74%	0,00%	5,34%
Germany	0,00%	0,94%	2,69%	1,29%	0,47%	0,05%	5,44%
Greece	1,73%	0,88%	4,96%	2,26%	0,00%	0,00%	9,83%
Ireland	2,19%	1,88%	2,98%	1,95%	0,00%	0,00%	9,00%
Italy	0,12%	0,19%	3,35%	1,86%	0,00%	0,75%	6,27%
Luxembourg	0,00%	0,16%	4,50%	3,03%	0,00%	0,00%	7,69%
Netherlands	1,37%	1,73%	2,09%	1,28%	0,00%	0,00%	6,46%
Portugal	2,39%	0,34%	4,08%	3,33%	0,00%	0,66%	10,81%
Spain	0,55%	0,59%	2,81%	2,24%	0,02%	0,52%	6,19%
Sweden	0,24%	0,49%	2,58%	0,59%	0,00%	0,00%	3,90%
UK	0,00%	1,64%	4,05%	2,06%	0,08%	0,00%	7,83%

GROSS DOMESTIC PRODUCT AT CURRENT MARKET PRICES, NATIONAL CURRENCY (BILLIONS) AND TOTAL TAXATION AS A PERCENTAGE OF GDP

Member States	1993		1994		1995	
	GDP billions, nat cur	tax revenue % of GDP	GDP billions, nat cur	tax revenue % of GDP	GDP billions, nat cur	tax revenue % of GDP
Belgium	7 316	45,60%	7 678	46,80%	7 936	46,80%
Germany	3 158	42,40%	3 320	42,70%	3 457	42,60%
Denmark	874	50,30%	926	51,80%	968	51,30%
Spain	60 934	36,70%	64 699	36,40%	69 779	34,97%
Greece	21 106	30,80%	23 756	31,80%	26 486	32,60%
France	7 077	43,90%	7 390	44,10%	7 675	44,50%
Italy	1 550 296	43,50%	1 638 666	40,70%	1 771 018	40,80%
Ireland	33	35,90%	36	36,70%	40	34,50%
Luxembourg	444	44,00%	488	44,30%	511	43,90%
Netherlands	581	48,40%	613	46,60%	635	45,40%
Portugal	13 210	35,40%	13 998	35,40%	15 050	36,22%
Austria	2 089	44,70%	2 199	44,00%	2 272	43,80%
Finland	482	45,50%	511	47,70%	546	46,50%
Sweden	1 446	50,30%	1 531	49,90%	1 645	50,20%
UK	629	33,10%	665	33,60%	697	34,90%

Source: Eurostat 1997