TSG 09/19(a)

Vehicle Registration Tax (VRT)

1. Introduction

1.1 After strong new car sales in January 2008, sales declined progressively throughout last year. Net registrations totalled 146,637 in 2008, compared to 181,571 in 2007, a decline of over 19% for the full year. The decline in new car sales continued in 2009, with 51,914 net registrations to end-September 2009, a decline of 64% compared to the same period last year. This trend is despite incentives of €1,000 to €7,000 in cash back offers being provided by a number of car distributors.

1.2 The fall in car sales, combined with increased competition on car prices, and consumer moves towards buying cheaper and cleaner cars (where the VRT rates are lower), has significantly affected VRT yield. Exchequer yield from VRT declined by 21% in 2008 compared to 2007 (from €1.4bn to €1.1bn). The yield to end-September 2009 is €344m, a decline of 68% compared to the same period in 2008.

1.3 The motor industry has sought the introduction of a variety of fiscal measures to assist the motor sector. These include changes to arrangements for the payment of VAT (which were announced on 14 September 2009), the introduction of a car scrappage scheme and a VRT export refund scheme.

2 Commission on Taxation

2.1 The Commission on Taxation has recommended that the VRT system should be replaced by a system based on car usage in the longer term, to include excise on fuels and road charging. Such a system should be introduced over a 10-year period in order to minimise adverse impacts (in relation, for example, to the existing fleet of tax-paid vehicles). It also recommended that a focussed scrappage scheme, targeted at encouraging a switch to the purchase of electric and very low carbon emitting vehicles, should be considered.

3. Replacing the VRT system

3.1 Replacing the VRT system even over an extended period of years raises significant questions. It would require a road charging/pricing system to be put in place and/or considerable increases being made in excises on petrol and auto-diesel, and most likely a combination of both. Some of the advantages and disadvantages are as follows.

3.2 <u>Some Advantages</u>

- Taxation on the basis of vehicle use – and therefore actual contribution to environmental damage – would be a more practicable approach than taxation on the basis of vehicle purchase, from an environmental perspective.
- Revenues from fuel purchase and road charges would be more stable, or less volatile, than those from vehicle purchases.

3.3 Some Disadvantages

- The abolition of VRT and a switch to increased excise on petrol and diesel would require significant price increases in those fuels. For example, taking the target tax yield of around €1.1bn in VRT in 2008, increases of over 30c per litre on both petrol and diesel (a price increase of around 25% for petrol and 30% for diesel) would be required.
- Such increases in excise, and unit cost, could contribute to a re-emergence of 'reverse fuel tourism' relative to Northern Ireland and the UK, leading to losses in business and in Exchequer yields.
- Abolition of VRT would have a significant negative effect on re-sale valuations for the existing car fleet, and could depress the new car market throughout the phasing period. It would also have a particular negative effect for rural residents and the haulage and transport sectors.
- Significant improvements in public transport options would need to be achieved in order to provide reasonable alternatives to private vehicle use, particularly in rural areas. A road charging system, raising sizable revenue, would also need to be put in place.

4 Scrappage Scheme

4.1 The sharp decline in new car sales is an international phenomenon, and is not unique to Ireland, but the declines in Ireland has been greater than in many countries. As of end September 2009, the European Automobile Manufacturers Association reported the introduction of 'fleet renewal' or scrappage schemes in around half the EU countries, including France, Germany, Italy, the Netherlands and the UK. The majority of the schemes are due to expire at end 2009, but some countries appear to be considering extensions. While the relief provided for cars range from a minimum of €675 in Cyprus to €5,000 in Italy, the majority are from around €1,000 to €1,500. Details are provided in Annex 1. The schemes do appear to have slowed down or reversed the decline in new car sales especially in Germany, the UK, France and Italy. Concerns are however being voiced concerning the likely impact the withdrawal of scrappage schemes will have on new car sales, in that people may have only advanced the purchase of their new car to avail of the relief rather than increasing the overall demand for new cars.

4.2 Some Advantages of Introducing a Scrappage Scheme

- It is argued that introducing a scrappage scheme would stimulate the new car market, consequently possibly increasing overall Exchequer receipts, and provide some relief to the motoring sector.
- A scrappage scheme would remove some older, potentially less safe/more polluting, vehicles from circulation, particularly if the scheme is designed in a way which restricts the relief to cars up to a certain max. CO_2 emission level.
- The latest draft of the OECD Environmental Performance Review of Ireland congratulates Ireland on our move to emissions-related VRT and Motor Tax systems, describing them as 'a remarkable step forward, which places Ireland among the leaders in Europe and the OECD'. An emissions-based scrappage scheme could further evidence Ireland's commitment to reaching agreed CO_2 emissions targets.

4.3 Some Disadvantages of Introducing a Scrappage Scheme

- There are concerns about the impact a scrappage scheme could have on the existing End-of-Life Vehicles scheme introduced by the Department of the Environment, Heritage and Local Government. On the environmental – and indeed economic – front, the introduction of a scheme raises the issue of the premature scrappage of a still-useful product.
- Introduction of a scheme also raises the question as to why the Government and Exchequer are promoting the purchase of cars through a subsidy, all of which are imported whether as new or used (i.e. none are supporting car manufacturing jobs in Ireland).
- The scheme could entail considerable deadweight, and also merely changing the timing of new car purchases rather than increasing the overall demand for new cars.

4.4 Previous Scrappage Scheme

A car scrappage scheme operated from 1 July 1995 to 31 December 1997. It provided for a £1,000 refund of VRT on the purchase of a new car where a car of 10 years old or more was scrapped, having been taxed and insured by the purchaser of the new car for at least two years immediately prior to its scrappage. A significant number of cars (60,500) obtained the refund under the scheme. It is however difficult to extract in any accurate way the proportion of those cars bought over the two and a half year period under the scheme which were purchased solely because of the scheme. It is of interest to note that the 1995-97 scrappage scheme took place at a time when GNP was growing by around 8% to 10% per annum. The number of new cars sold accelerated appreciably during those years, although on the abolition of the scheme new car sales continued at higher levels in subsequent years.

4.5 New Scrappage Scheme

The introduction of a new scrappage scheme could be considered especially given the current depressed state on the new car sales market. The timing of such a scheme would be crucial (to be in place by 1 January 2010). Any such scheme should be set for a fixed period (e.g. 12 months from the date of introduction). VRT relief of up to €1,500 or €2,000 could be made available where a new car of CO_2 Band A to D (i.e. with CO_2 emissions less than 170g/km) is purchased and a car aged ten years old or more is scrapped. The car being scrapped would have to be registered in the State in the name of the purchaser of the new car for at least the previous two years and be motor taxed for a significant part of that time, and would have to be scrapped in an End of Life Vehicles authorised treatment facility, and a Certificate of Destruction issued by the facility in respect of the car.

4.6 Cost or gain to the Exchequer

The potential cost or gain to the Exchequer from a scrappage scheme is finely balanced and depends on the assumptions adopted. Currently over 677,900 private cars would potentially qualify for a scheme based on cars of 10 years or more being eligible for the scheme. The breakeven point for the Exchequer would require up to 27% of the cars qualifying under the scrappage scheme to be genuine "additional" new car purchases, even on fairly reasonable assumptions, including a VRT relief of €1,500 (35% if VRT relief of €2,000). Of course, decisions on some purchases might be brought forward as a result of the scheme, thereby supporting employment now.

4.7 Given the current financial and economic circumstances, any impact of a scrappage scheme on new car sales is likely to be far more limited than in the 1995 to 1997 period. A figure of 20,000 new cars being purchased under the scheme in 12 months has been mentioned by the motor industry. At the very worst, which is very unlikely; based on VRT relief of €1,500, the Exchequer could lose at max. €1.5m per 1,000 cars scrapped under the scheme or €30m if 20,000 cars qualified [if VRT relief is at €2,000 max. possible loss of €2m per 1,000 cars scrapped or €40m if 20,000 cars qualified]. However, the most likely result is that there would be a reasonably small gain for the Exchequer, for example if 50% of the qualifying purchases were genuine "additional" new car purchases, with the VRT relief at €1,500 there would be an Exchequer revenue gain of around €26m [with VRT relief at €2,000 there would be a revenue gain of around €16m].

4.8 Notifying the European Commission
Under Directive 98/34/EC laying down a procedure for the provision of information in the field of technical standards and regulations, it is necessary for Member States to notify to the Commission and the other Member States of technical regulations at a draft stage (i.e. at a stage when amendments can still be introduced). A scrappage scheme based on CO_2 emissions would come under this Directive. However, the Commission has advised that a notified draft could be adopted very quickly (within about 15 working days from the date of notification) if necessary. This would impact as to when any new scheme would have to be announced.

5 Export Refund Scheme

5.1 An export refund scheme involves a refund of a residual element of VRT contained in a vehicle on the permanent "export" of the vehicle to another Member State. A refund system would most likely involve both members of the motor trade and private individuals. It is likely that the more significant proportion of 'exports' would come from the trade, and that certain dealers would specialise in sourcing second-hand cars from main dealers and 'exporting' them for resale in the UK or outside the EU. Such schemes are in place in some EU Member States, and the introduction of such a scheme on an EU wide basis was considered in 2007 but agreement was not reached.

5.2 The motor industry has repeatedly sought a VRT export refund scheme in the context of annual pre-Budget submissions, given the large number of used cares being imported. The industry contends that the lack of such a scheme 'distorts normal market forces' and as such, is anti-competitive. Implementation of a refund scheme would restore a balance and would also protect the Exchequer because VRT export refunds would be replaced by VRT and VAT from sales of new cars; in addition, there would be an environmental benefit from the displacement of used cars with new/less polluting vehicles. XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXX.

5.3XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
.

5.4 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

6 Reliefs for Electric, Hybrid Electric and Flexible Fuel Cars

6.1 A VRT relief scheme for series production **hybrid and flexible fuel cars, including hybrid electric cars,** which expired on 31 December 2007, was initially extended to 30 June 2008. From 1 July 2008 to 31 December 2010, registration of such cars attracts a relief of up to €2,500 on the VRT payable – in addition to any benefits accrued due to the CO_2 emission related system. Furthermore, with effect from 1 January 2008 and until 31 December 2010, **electric cars** are completely exempted from VRT.

6.2 In the nine months to end September 2009 some 493 hybrid, 635 flexible fuel and 4 electric cars were registered; a total of 1,132 cars. The total VRT relief provided has been around €2.6 million.

6.3 The draft Report of the Inter-departmental Working Group on Electric Vehicles has proposed that the VRT reliefs for hybrid electric and electric cars be extended until 31 December 2012, as part of an overall package, to encourage the purchases of electric cars. In that context the Revised Programme for Government contains a commitment that "we will work with the ESB and international motor companies to see a deployment of some 6,000 electric vehicles over the next three years".

Annex 1 - Vehicle Scrappage Schemes in the European Union*

Country	Incentive	Vehicle age (years)	Conditions	Duration
Austria	€ 1,500	> 13	• New car minimum Euro 4 • Dealers pay 50% of the incentive; Total envelope €45 m (exhausted)	01/04/2009-31/12/2009
France	€ 1,000 €700 (proposed) €500 (proposed)	> 10 > 10 > 10	• New car max. 160g/km CO_2. No CO_2 emissions requirement for new light commercial vehicle • Estimated cost €380m • Same as above • Same as above	04/12/2008-31/12/2009 1/1 to 30/6/09 1/7 to 31/12/09
Germany	€ 2,500	> 9	• New car minimum Euro 4. Used car purchased max.1 year old. • Total envelope €5bn (exhausted)	14/01/2009-31/12/2009
Greece	€1,500–€3,200 (cars) €2,000–€3,700 (LCVs) €7,000–€13,000 (HDVs)		• Incentive increases with engine size (cars & LCVs) or gross vehicle weight (HDVs) • Incentive is lower when no new car is bought (Cars: €1,000 less, LCVs: €1,500 less, HDVs: €4,000 less)	Announced 22/07/2009
Italy	€1,500-€5,000 (cars) €2,500-€6,500 (LCVs)	> 9	• New car minimum Euro 4 + emits max. 130g/km (diesel) or 140g/km (other fuels) • €1,500 scrappage incentive (plus possible €1,500 purchase incentive for new CNG/ electricity/ hydrogen fuel car (up to €3,000 for up to 120g/km; €3,500 if less than 120g/km) • Purchase incentive for new car running on LPG is €1,500. Increased to €2,000 if car emits less than 120g/km. This can also be combined with the scrappage incentive • €2,500 LCVs scrappage (plus possible €4,000 purchase incentive for new CNG-fuelled LCV). • Purchase incentive €1,500 for new LCV running on LPG/electricity/hydrogen. Increased to €2,000 if vehicle emits less than 120g/km. Can also be combined with the scrappage incentive.	07/02/2009-31/12/2009 (registration until 31/03/2010)
Portugal	€1,000 €1,250 €1,250 €1,500	>10 >15 > 8 > 13	• New car emits max. 140g/km CO_2 • Same as above	01/01/2009-31/12/2009 08/08/2009-31/12/2009
Romania	€ 900 approx	> 10	• Max. 60,000 cars	01/02/2009-31/12/2009
Spain	Interest-free loan up to €10,000 (Plan VIVE)	>10 Or above 250,000 km	• New car value max. € 30,000; New car emits max. 140g/km CO_2 • New light commercial vehicle emits max.160g/km CO_2 • Applies to purchase of used cars up to 5 years old provided scrapped car is at least 15 years old	01/12/2008-01/10/2010

Country	Incentive	Vehicle age (years)	Conditions	Duration
	€ 2,000 (Plan 2000E)	> 10 (buy new) > 12 (buy used)	• New vehicle value max. € 30,000; Manufacturers pay 50% of the incentive; New car emits less than 149g/km, new commercial vehicle emits less than 160g/km • Applicable to used cars up to 2 years old • Max. 200,000 vehicles	18/05/2009
Luxem-bourg	€ 1,500 - €1,750	> 10	• € 1,750 if new car max. 120 g/km CO_2 (diesel ≤ 5 mg PM) • € 1,500 if new car emits max. 150g/km	22/01/2009–01/10/2010
Cyprus	€ 675 - €1,700	> 15	• € 675 for simple scrappage, €1,280 if combined with purchase of new car consuming max.7 litres/100 km. € 1,700 if combined with purchase of new car consuming max.5 litres/100 km.	Ongoing
Slovakia	€1,000-1,500 € 2,000	> 10 > 10	• New car value max. €25,000 • €1,000 incentive. €1,500 incentive if dealer contributes €500 (total customer benefit €2,000). • New car value max. € 25,000 • Dealers pay 50% of the incentive	09.03.2009 - 25.03.2009 06.04.2009-31.12.2009
Nether-lands	€750 – €1,000 € 1,000- €1,750	> 13 > 9	• Petrol cars/light commercial vehicles (€ 750 if old car/van > 19 years, €1,000 if old car/van > 13 < 19 years, New car/van < 8 years). • Diesel cars/light commercial vehicles (€1,000 for old car; €1,000 for old van < 1,800 kg, €1,750 for old van > 1,800 kg). New car/van equipped with particulate filter	2009-2010 Exact date to be decided.
United Kingdom	£ 2,000	> 10	• Passenger cars and light commercial vehicles • Manufacturers pay 50% of the incentive • Total envelope £ 400 m	05/2009 - 02/2010

* Data as of October 2009.