

Vehicle Registration Tax (VRT)

1. Introduction

1.1 Following a decline in new car sales of over 19% in 2008 (net registrations of new cars totalled 146,637), there was a dramatic fall in car sales in 2009 of around 63% (net registrations of new cars totalled 54,055). These declines, combined with increased competition on car prices, and consumer moves towards buying cheaper and cleaner cars (where the VRT rates are lower), the VRT yield has been significantly affected. Exchequer yield from VRT after reaching €1.4bn in 2007, declined to €1.1bn in 2008, and declined very sharply in 2009 to €375m (a decline of around 66% in 2009 compared to 2008) .

1.2 In 2010, assisted in part by the introduction of the car scrappage scheme, net registrations of new cars to end September have increased to 80,298 compared to 51,914 in the same period in 2009; an increase of 28,384 or 54.7% on the same period in 2009. To end September 2010 some 13,530 cars have been purchased through the car scrappage scheme. There has been a decline of around 20% in second-hand car registrations to end September 2010 compared to the same period in 2009.

1.3 Despite the strong increase in new car sales in 2010 there has been only a very marginal recovery, at under 2%, in VRT receipts to date in 2010. While the €19.6m refunded under the car scrappage scheme has contributed in part to the slow recovery in VRT receipts, the main cause is the continuing trend towards purchasing low emission cars and the continuing decline in the average price of new cars (the average OMSP of a new car was €27,098 in 2007, €26,752 in 2008, €23,715 in 2009 and is €21,537 in 2010 to date).

1.4 The motor industry has sought (among other things) an extension to the car scrappage scheme to assist the motor sector.

2. Commission on Taxation

2.1 The Commission on Taxation recommended that the VRT system should be replaced by a system based on car usage in the longer term, to include increased 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 the introduction of a focussed scrappage scheme.

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 Some Advantages

- 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 €700m in VRT, increases of around 20c per litre on both petrol and 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 Extending the Scrappage Scheme

4.1 The sharp decline in new car sales in 2009 was an international phenomenon, and was not unique to Ireland, but the decline in Ireland was greater than in many countries. In 2009 the European Automobile Manufacturers Association reported the introduction of ‘fleet renewal’ or scrappage schemes in around half the EU countries. While the relief provided for cars ranged from a minimum of €675 in Cyprus to €5,000 in Italy, the majority were from around €1,000 to €1,500. The schemes did slow or reverse the decline in new car sales especially in Germany, the UK, France and Italy. The vast majority of countries that introduced scrappage schemes have now withdrawn or not extended the schemes. However as countries withdrew their scrappage schemes, they have re-experienced declines in the growth of new car sales and indeed a fall in new car sales in some cases.

4.2 As indicated above Ireland introduced a car scrappage scheme with effect from 1 January 2010 to 31 December 2010. It provides VRT relief of up to €1,500 where a new car of CO2 emission Bands A or B is purchased and a car aged ten years old or more is scrapped. To end September 2010 some 13,530 cars have been purchased through the car scrappage scheme, with €19.6m VRT relief being repaid.

4.3 While the SIMI Pre-Budget Submission has not yet been received, it is understood that the industry will be pressing to have the scrappage scheme extended in some form.

4.4 Some Advantages of Extending the Scrappage Scheme include

- It is argued that extending the scrappage scheme would continue to stimulate the new car market, consequently possibly increasing overall Exchequer receipts, and provide further relief to the motoring sector.
- It would continue to remove older, less safe/more polluting, vehicles from circulation and reduce CO2 emissions.
- According to the motor industry, it will result in customers continuing to return to forecourts leading to maintaining sales of both new and used cars, therefore safeguarding jobs until overall economic growth recovers.

4.4 Some Disadvantages include

- It was stated that the scheme was for one year.
- The scheme could entail significant deadweight, and merely changing the timing of new car purchases rather than increasing the overall demand for new cars.
- The scheme does involve a loss of VRT to the Exchequer.

4.5 The options in relation to the scrappage scheme include

- a) Not extending the scheme beyond 31 December 2010;
- b) Extending the scheme at its current VRT relief level on €1,500 for 2011; or
- c) Extending the scheme at a lower VRT relief level, for example €1,000, for six or nine months.

France broadly adopted an option (c) approach. After having a relief of €1,000 during 2009, it extended the scheme until end 2010, with the relief being set at €750 until end June 2010 and at €500 to end December 2010.

4.6 The potential cost or gain to the Exchequer from a scrappage scheme is finely balanced and depends on the assumptions adopted. The breakeven point for the Exchequer would require up to 30% 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 and 20% if VRT relief was at €1,000. Of course, decisions on some purchases might be brought forward as a result of the scheme, thereby supporting employment now.

4.7 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 €15m if 10,000 cars qualified. If the VRT relief is at €1,000 maximum possible loss of €1m per 1,000 cars scrapped or €10m if 10,000 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 €10m; with the VRT relief at €1,000 there would be a revenue gain of around €15m.

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

when the new CO₂ related VRT system was introduced, especially as flexible fuel cars would benefit little under the new system given the way their CO₂ level is measured for their Certificate of Conformity. While it can be argued that there is a case for allowing the reliefs to now end, alternatively the schemes could be extended for a further two years but with a reduction in the reliefs (for example to €1,500).

6.2 In 2009 some 600 hybrid and 700 flexible fuel cars were purchased; with overall VRT relief of €3m. To end September around 1,100 hybrid and 2,700 flexible fuel (mainly one model) cars have been purchased; with overall VRT relief of around €9m provided.

6.3 The VRT exemption for **electric vehicles** and the VRT reliefs of up to €2,500 for **plug-in hybrid electric vehicles** were extended in Budget 2010 to 31 December 2012. A car manufacturer has called for the equalisation of the reliefs between electric vehicles and plug-in hybrid electric vehicles, i.e. full exemption. A similar case has been made in respect of the grant of €5,000 for electric and €2,500 for plug-in hybrid electric vehicles that is being introduced on 1 January 2011. The difference in the levels of reliefs and grants being provided for electric and plug-in hybrid electric vehicles were consciously introduced in order to favour full electric vehicles.

6.4 As indicated above there is a full exemption from VRT for **electric vehicles**. The cost of the full exemption per vehicle can be high; for example to date in 2010 seventeen electric vehicles have been purchased and the overall VRT relief provided amounts to €181,200, or an average of €10,659 per vehicle. In addition, one vehicle purchased cost over €104,000, which means that it received VRT relief of some €14,600. To avoid, inter alia, the adverse publicity that such a headline could provide, putting a cap on the maximum amount of VRT relief any electric vehicle could receive might be considered. For example a cap of €5,000 VRT relief would provide that electric vehicles with OMSP of up to around €35,700 would continue to be fully exempt from VRT, but vehicles priced above that level would pay some VRT [vehicle priced at €40,000 would pay €600 in VRT, priced at €50,000 would pay €2,000, priced at €60,000 would pay €3,400, priced at €70,000 would pay €4,800, etc].

7 Commercial (Category C) Vehicles

7.1 The current rate of VRT for Commercial vehicles is a flat-rate €50. Given that the current VRT rate hardly covers the administration costs of registering the vehicle, in particular when the pre-registration examination cost from 1 July 2010 is deducted from the VRT rate, consideration might be given to applying an increase in the rate, to say €200. The flat-rate of €50 has not been increased since its introduction in 1993 (when it was set at £40 and converted to €50 in 2002). The yield from this category of vehicle in 2009 was around €1.7m (€3.7m in 2007); increasing the VRT rate to €200 would yield around an additional €5 - €8m per annum.

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New Cars Purchased Broken-down by CO2 Emission Bands

	CO₂ Emissions (CO₂g/km)	VRT Rates	2007	2008 (a)	2009	To end Sept. 2010 (prov)
A	0 – 120g	14% of OMSP	1.5%	3.8%	13.0%	34.7%
B	More than 120g/km up to and including 140g/km	16% of OMSP	16.3%	26.8%	44.7%	45.5%
C	More than 140g/km up to and including 155g/km	20% of OMSP	23.4%	19.3%	19.7%	10.4%
D	More than 155g/km up to and including 170g/km	24% of OMSP	24.7%	25.0%	13.4%	6.4%
E	More than 170g/km up to and including 190g/km	28% of OMSP	21.6%	15.9%	6.7%	2.1%
F	More than 190g/km up to and including 225g/km	32% of OMSP	8.4%	6.4%	2.0%	0.6%
G	More than 225g/km	36% of OMSP	4.2%	2.8%	0.4%	0.3%

Source: 2007 and 2008 figures – Sustainable Energy Ireland’s Energy in Transport 2009 Report.

2009 and 2010 figures – D/Finance and Revenue data.

(a) The new CO₂ related VRT system was introduced on 1 July 2008; consequently the 2008 figures are a combination of the old engine based and the new CO₂ related VRT systems.

OMSP = Open Market Selling Price