

Vehicle Registration Tax (VRT)

1. Introduction

1.1 Following a decline in new car sales of over 19% in 2008 (when 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). As a result of 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.

1.2 Exchequer yield from VRT was €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). Figures for 2010 improved somewhat to €384m and to end September 2011, receipts stood at €351m, with 84,531 new cars purchased.

1.3 At end September 2011, some 16,304 cars have been purchased through the car scrappage scheme, with over 17,000 having been purchased under the scheme in 2010. There has been a decline of around 18% in second-hand car registrations in 2010 (when 37,129 cars were registered) compared to 2009, and there have been 26,409 registered to date in 2011.

1.4 Despite the strong increase in new car sales in 2010 there was only a very marginal recovery, at around 2% (€9m), in VRT receipts in 2010. While the €24.9m 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, €21,319 in 2010, and is €22,351 to date in 2011).

2. The Scrappage Scheme

2.1 A total of 33,345 cars were scrapped under the scrappage scheme during the 18 month period of the scheme. On introduction it was estimated that 25,000 cars was the threshold for the scheme to break even. While the scheme undoubtedly had the desired positive effect on the industry and produced a small gain for the Exchequer, what the scheme has also resulted in is a much higher concentration of sales within the 1st three CO2 emission categories – almost 96% - thereby attracting the lowest rate of VRT.

3. Replacing the VRT system

3.1 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).

3.2 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. A further – EU-recommended – option could be to consider putting it on motor tax. Some of the advantages and disadvantages are as follows.

3.3 Some Advantages

- Taxation on the basis of vehicle use – and therefore actual contribution to environmental damage – would be a more targeted 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.

3.4 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 a target tax yield of around €400m in VRT, increases of the order of around 20c per litre on both petrol and diesel would be required. This estimate is based on historically low sales volumes.
- If increases in motor tax were applied, the question arises as to who benefits from the increased revenue – the Exchequer or the Local Government Fund.
- 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 on those doing high mileage (e.g. rural residents) and the haulage and transport sectors.
- Significant improvements in public transport options would be needed 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.

SIMI, in previous pre-Budget submissions, acknowledged that any change being made to the VRT system which would have the effect of abolishing it in its present form would have to be done over a 10 year period to minimise the effect on those dealers with stocks of vehicles, which could not be easily disposed of in the event of VRT being abolished.

Possible restructuring of VRT Bands

3.5 At end August 2011, almost 96% of the new cars purchased were in the first 3 CO2 emission bands. This is having a considerable effect on dampening the VRT yield, despite the increase in new car sales. The table appended at **Annex 1** shows the breakdown of the VRT take since 2007, and shows the shift in band allocation during that period. In view of both the decline in VRT receipts and the significant drift to the lower-emission bands, consideration needs to be given to options which will generate higher VRT yields going forward, i.e. adjust the tax system to counteract the behavioural responses. After a number of years of operation it is now worth examining the current CO2 bands and rates structures in the light of the overall reductions in CO2 emission levels being made by car manufacturers and the standards set internationally with a view to adjusting the bands in line with technological advances. This

could be targeted for implementation on 1 January 2013. While not the subject of this paper, similar issues will be considered in the context of declining road tax receipts.

While the review could take place during 2012, and will involve consultation with the industry, there are a number of options which might be given consideration, such as % increases across the existing bands, a restructuring of the existing bands by amending the emissions within each band, or possibly some combination of the two. Other options may also emerge.

Purely for illustrative purposes, set out below are some indicative figures, based on historically low new car numbers in 2010:

CO2 Band	g/km	Current Rate (% of OMSP)	Current VRT Receipts €	If bands increased by, say, 1%	Projected VRT Receipts €	If bands increased by, say, 2%	Projected VRT Receipts €
A	0-120g	14%	76,656	15%	82,511	16%	88,412
B	121-140g	16%	122,606	17%	130,885	20%	139,228
C	141-155g	20%	50,323	21%	53,101	24%	55,901
D	156-170g	24%	33,365	25%	34,937	28%	36,521
E	171-190g	28%	17,845	29%	18,584	32%	19,329
F	191-225g	32%	9,786	33%	10,151	36%	10,518
G	226g and over	36%	6,815	37%	7,048	38%	7,282
Totals			317,396		337,218		357,190
Additional Yield					+20m		+40m

4 Export Refund Scheme

4.1 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.

4.2 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 cars 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. Given the weakness of Sterling, while still asking for the introduction of an export refund scheme, the motor industry does not appear to consider it a priority compared to other measures it is pressing for. In addition it has argued

that 'extensive consultation' with the industry would be necessary before the introduction of an export refund scheme.

4.3 The introduction of a VRT export refund scheme would require careful consideration, especially as to the type of scheme being introduced and the measures and conditions to be built into the scheme to ensure that it was not abused, and that it would be as simple as possible to administer. The main difficulty with such a scheme is that it would be difficult to administer and be open to abuse. If introduced, it would be important that a refund system was not used for example to facilitate the dumping of unroadworthy vehicles or written-off vehicles on to other countries. In addition, it could be difficult to prove that a vehicle was actually exported; and even if exported, was not re-imported, legally or illegally, for use in the State. Sufficient safeguards would have to be put in place in those regards.

4.4 The cost to the Exchequer would depend on a number of factors, including the number of cars exported, the value of those cars and the type of cars replacing in Ireland the cars exported (e.g. new cars or used imports). For illustrative purposes, if for example 5,000 cars with an average value of €8,000 and average VRT rate of 24% per car were exported, the VRT refunded would amount to €9.6m (€1,920 per car). In addition, there would be set-up and ongoing administration costs and resource implications for Revenue. While there may be gains for the Exchequer if the exports stimulate the domestic purchase of new cars, there could be significant deadweight in any such scheme. In addition, where used cars exported are simply replaced by other used cars, the Exchequer benefits highlighted by the motor industry would be negated. It is possible that the end result of such a scheme will simply be that the stock of used cars will be made up of cars of a reduced age – although this may be environmentally positive – with this churn being facilitated/financed by the Exchequer.

4.5 The illustrative figure of €9.6m above assumes that none of the vehicles would be replaced in the State. For each vehicle replaced with a new vehicle with an OMSP of €20,000 and an average VRT of 16% the State gets €6,700 in VAT and VRT, a net gain of €4,780, while for each used vehicle with an OMSP of €12,000 and an average VRT of 16% imported as a replacement, the State breaks even. Significant losses only occur where a vehicle is exported and no replacement vehicle, either new or used, is purchased.

4.6 In addition to the more general issues relating to an Export Refund Scheme as outlined above, the existence of ongoing EU Infringement proceedings in relation to the treatment for VRT purposes of rental/lease cars, particularly as it affects the position of rental/leasing companies from outside the State, has brought the possible introduction of such a scheme into greater focus. Under current legislation, companies based outside Ireland would, in relation to those vehicles driven on Irish roads, incur a VRT charge. The EU has determined that Article 56 of the EU Treaty (restricting businesses outside the State in their freedom to provide services within the EU) is being breached. The EU Commission argues that the application, without refund, of VRT on rental/lease cars has the effect of discriminating against car rental/lease operators from other Member states who wish to operate here. The EU Commission does not accept arguments put forward by Ireland in relation to concerns as to the potential damage to the Irish car rental market if the current basis of applying VRT must be dispensed with; its concern is that the system does not discriminate against another Member State.

New Cars Purchased - broken down by CO2 Emission Bands

	CO ₂ Emissions (CO ₂ g/km)	VRT Rates	2007	2008 (a)	2009	2010	To end Sept 2011 (prov)
A	0 – 120g	14% of OMSP	1.5%	3.8%	13.0%	34.7%	42.8%
B	More than 120g/km up to and including 140g/km	16% of OMSP	16.3%	26.8%	44.7%	45.5%	48.2%
C	More than 140g/km up to and including 155g/km	20% of OMSP	23.4%	19.3%	19.7%	10.4%	4.8%
D	More than 155g/km up to and including 170g/km	24% of OMSP	24.7%	25.0%	13.4%	6.4%	2.6%
E	More than 170g/km up to and including 190g/km	28% of OMSP	21.6%	15.9%	6.7%	2.1%	1.0%
F	More than 190g/km up to and including 225g/km	32% of OMSP	8.4%	6.4%	2.0%	0.6%	0.5%
G	More than 225g/km	36% of OMSP	4.2%	2.8%	0.4%	0.3%	0.2%

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

2009, 2010 and 2011 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