



## Information note the current proposals for revising the European Energy Tax Directive

### Key points

- Mineral Oil Tax comprises both non-carbon and carbon excise duty. Carbon tax is based on the level of emissions from a fuel (price per tonne of carbon dioxide emitted), whereas non-carbon excise duty is not.
- A minimum rate of taxation on energy products used for heating and transport, as well as electricity, is mandated by the European Energy Tax Directive.
- The reduced rates of excise on auto diesel, kerosene and marked gas oil, as compared to the rate of excise applied to unleaded petrol, constituted three of the top ten tax expenditures by cost in 2019 and 2020.
- The European Fit for 55 package is a set of legislative proposals to achieve European wide emissions reductions of 55 per cent by 2030.
- The Fit for 55 package includes proposed reforms of the Energy Tax Directive. The proposed revisions to the Energy Tax Directive includes the removal of the current exemption from excise duty for household electricity use as well as the removal of the current exemption from excise duty on aviation fuel.
- The rate of excise duty applied to petrol, auto diesel, kerosene and marked gas oil have been temporarily reduced to address the current environment of increased energy prices.
- The rate of VAT has also been temporarily reduced on natural gas and electricity from 13.5% per cent to 9 per cent.

## 1. Mineral Oil Tax

The application of excise duty to products used for heating and transport, as well as electricity, is governed by the [Energy Taxation Directive](#) (ETD). The ETD sets a minimum level of taxation that must be applied to energy sources with the aim of encouraging a low-carbon and energy efficient economy.<sup>1</sup> Member States may design their own taxes within the framework of the ETD and can determine domestic rates, provided they meet the ETD minimum. This means that the rates of excise duty, in the form of Mineral Oil Tax, applied in Ireland must be at least the minimum provided for by the ETD.

The Finance Act 1999 provides for the application of excise duty, in the form of Mineral Oil Tax (MOT), to specified mineral oils, such as petrol, diesel, and kerosene that are used as motor or heating fuels.

Excise duties are a particular form of consumption tax. Mineral oil tax now comprises of two separate excise charges on mineral oils – a carbon component and a non-carbon component.

The carbon component of Mineral Oil Tax is commonly referred to as the Carbon Tax, and the non-carbon component is generally referred to as ‘excise’, ‘fuel excise’ or ‘fuel duty’. However, both components of Mineral Oil Tax are considered to be an excise duty by Revenue.

The carbon component of Mineral Oil Tax, the Carbon Tax, was introduced in Budget 2010. The Carbon Tax price is applied on the basis of a € amount per tonne of carbon dioxide emitted and consequently it accurately reflects the level of emissions of different fuels. However, the rates of non-carbon excise duty that are applied are not related to the level of emissions and consequently distort the carbon pricing mechanism of the Carbon Tax.

### 1.1 Rate of tax applied to selected fuels

Table 1 below shows the tax applied to selected fuels (these have been chosen on the basis of their general use by individuals and households).

Revenue have a complete list of the rates of Mineral Oil Tax applied to all fuels (from 1 May 2022), available [here](#).

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<sup>1</sup> For the purposes of the Energy Tax directive (see Article 4 of the [Directive](#)) the ‘level of taxation’ relates to the total charge levied in respect of all indirect taxes (except VAT), calculated directly or indirectly on the quantity of energy products and electricity at the time of release for consumption. Consequently, Member States should be permitted to comply with the Community minimum taxation levels by taking into account the total charge levied in respect of all indirect taxes which they have chosen to apply, excluding VAT.

**Table 1 Tax applied to selected fuels (€ per 1,000 litres)**

Product	Fuel Excise Duty	Carbon Tax <sup>2</sup>	Total Rate of Mineral Oil Tax	Rate of VAT applied	ETD Minimum
Petrol	€371.11	€94.87	€465.98	23%	€359
Auto diesel	€295.64	€109.74	€405.38	23%	€330
MGO ('green diesel')	€0	€111.14	€111.14	13.5%	€21
Kerosene (heating)	€0.00	€103.83	€103.83	13.5%	€0
Aviation Fuel <sup>3</sup>	Exempt	Exempt	€0	Exempt	Exempt

Source: Revenue [Excise Duty Rates](#) (as at 1 May 2022)

*The temporarily reduced rates of excise are currently intended to remain in place until Budget night.*

## 1.2 Excise fossil fuel subsidies in the form of tax expenditures

Three environmental tax expenditures are in the top 10 tax expenditures by cost in 2019 and 2020, ranking 1<sup>st</sup>, 6<sup>th</sup> and 8<sup>th</sup> in 2020 and previously ranking 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> in 2019.<sup>4</sup> These environmental tax expenditures are the:

- Reduced rate of excise rate on kerosene (which primarily has an impact on households);
- Reduced rate of excise on marked gas oil (which primarily has an impact on businesses); and,
- Reduced rate of excise on auto-diesel (which affects both households and businesses).

They accounted for 18 per cent of the value of all tax expenditures in 2019 and 22 per cent of the value of all tax expenditures in 2020.

In the case of these excise measures, the value of the tax expenditure is the difference between the excise duty collected in respect of a specific fuel and that tax revenue that would be collected if the

<sup>2</sup> The rate of Carbon Tax has increased, effective from 1 May 2022.

<sup>3</sup> The exemption from excise duty and carbon tax on aviation fuel only applies to commercial aviation fuel.

<sup>4</sup> There was a significant change in the cost of the lower rate of excise on kerosene between 2019 and 2020. As kerosene is mainly used as a heating fuel, this is most likely due to the emergence of remote working/working from home as a result of the Covid-19 pandemic. Similarly, there was also a significant change in the cost of the lower excise rate on auto-diesel due to the fact that people were driving less due to lockdown restrictions and the emergence of working from home in some sectors. Department of Finance, Budget 2022 [Report on Tax Expenditures](#), October 2021.

excise duty on that fuel (in this case kerosene, marked gas oil and auto-diesel) was to be applied at the same rate as unleaded petrol.<sup>5</sup>

### 1.3 Impact of changes to the rate of carbon tax and excise duty applied to selected fuels.

The table below shows the estimated impact of the planned annual carbon tax increase over the next eight years based on the current price of a typical fuel bundle for each of the fuel types below.<sup>6</sup>

**Table 2 Cost of a Typical Fuel Bundle – impact of carbon tax increases**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Petrol</b>	€98.76	€100.04	€101.32	€102.6	€103.88	€105.16	€106.44	€107.72	€109
<b>Diesel</b>	€93.96	€95.44	€96.92	€98.4	€99.88	€101.36	€102.84	€104.32	€105.8
<b>Kerosene</b>	€612	€631.4	€650.8	€670.2	€689.6	€709	€728.4	€747.8	€767.2

Source: [Budget 2022 - A Citizen's Guide](#) (Link to Guide at bottom of page)

**Table 3 Cost of a Typical Fuel Bundle – impact of excise duty increases**

Product	Typical fuel bundle	Current rate of excise duty	Average amount of excise duty paid <sup>7</sup>	Increased cost of equalisation of rate of excise duty with petrol <sup>8</sup>	Additional cost per litre of increasing duty by €10/1,000 litres
Petrol	60 litres	€371.11	€22.27	€0	€0.60
Auto diesel	60 litres	€295.64	€17.74	€4.53	€0.60
Kerosene (heating)	900 litres	€0	€0	€334	€9

Source: Revenue [Excise Duty Rates](#) (as at 1 May 2022) and Secretariat calculations

<sup>5</sup> Unleaded petrol is used as the benchmark as this is the highest rate of excise on mineral oils is applied to unleaded petrol. Lower rates of excise are considered tax expenditures by Revenue and the Department of Finance and the amount of the tax expenditure is calculated on the basis of revenue forgone as a result of the lower rate of excise.

<sup>6</sup> [Budget 2022 - A Citizen's Guide](#)

<sup>7</sup> Based on typical fuel bundle.

<sup>8</sup> Increased cost of typical fuel bundle.

**Table 4 Future increases in mineral oil tax**

Date	Petrol (MOT)	Auto Diesel (MOT)	Kerosene (MOT)	Petrol (Carbon Tax)	Auto Diesel (Carbon Tax)	Kerosene (Carbon Tax)	Petrol (Excise Duty)	Auto Diesel (Excise Duty)	Kerosene (Excise Duty)
As at 1 May 2022	€465.98	€405.38	€103.83	€94.87	€109.74	€103.83	€371.11	€295.64	€0
12 October 2022	€654.07	€555.53	€103.83	€111.23	€129.81	€103.83	€541.84	€425.72	€0
1 May 2023	€654.07	€555.53	€122.83	€111.23	€129.81	€122.83	€541.84	€425.72	€0
11 October 2023	€671.43	€575.61	€122.83	€129.59	€149.89	€122.83	€541.84	€425.72	€0
1 May 2024	€671.43	€575.61	€141.82	€129.59	€149.89	€141.82	€541.84	€425.72	€0
9 October 2024	€688.78	€595.68	€141.82	€146.94	€169.96	€141.82	€541.84	€425.72	€0
1 May 2025	€688.78	€595.68	€160.81	€146.94	€169.96	€160.81	€541.84	€425.72	€0
8 October 2025	€706.14	€615.76	€160.81	€164.30	€190.04	€160.81	€541.84	€425.72	€0
1 May 2026	€706.14	€615.76	€179.81	€164.30	€190.04	€179.81	€541.84	€425.72	€0
14 October 2026	€723.49	€635.83	€179.81	€181.65	€210.11	€179.81	€541.84	€425.72	€0
1 May 2027	€723.49	€635.83	€198.80	€181.65	€210.11	€198.80	€541.84	€425.72	€0
13 October 2027	€740.85	€655.90	€198.80	€199.01	€230.18	€198.80	€541.84	€425.72	€0
1 May 2028	€740.85	€655.90	€217.80	€199.01	€230.18	€217.80	€541.84	€425.72	€0
11 October 2028	€758.21	€675.98	€217.80	€216.37	€250.26	€217.80	€541.84	€425.72	€0
1 May 2029	€758.21	€675.98	€236.79	€216.37	€250.26	€236.79	€541.84	€425.72	€0
10 October 2029	€773.25	€693.38	€236.79	€231.41	€267.66	€236.79	€541.84	€425.72	€0
1 May 2030	€773.25	€693.38	€253.25	€231.41	€267.66	€253.25	€541.84	€425.72	€0

Source: [Finance Act 2021](#) Schedule 2 Rates of Mineral Oil Tax and Schedule 2A Carbon Charge

## 2. Fit for 55 Package

On 14 July, the EU Commission published a set of legislative proposals, the 'Fit for 55' package, intended to provide a framework to achieve a reduction of greenhouse gas emissions of at least 55 per cent (below 1990 levels) by 2030.

The key tax policies provided for in the Fit for 55 package to achieve the aims of the European Green deal are the revision of the Energy Tax Directive and a potential Carbon Border Adjustment Mechanism.

A summary of the proposals in the Fit for 55 package include:

- Updated Effort Sharing Regulation (ESR), which includes revised increased emissions reductions targets for EU Member States, including an increased emissions reduction target of 42 per cent by 2030 (relative to 2005, up from 30 per cent) for Ireland;
- The extension of the Emissions Trading System (ETS) to the maritime and aviation sectors;
- A separate ETS for road transport and buildings (by 2026);
- A Social Climate Fund;
- A Carbon Border Adjustment Mechanism;
- More stringent carbon dioxide performance rules for cars and vans;
- An updated Energy Tax Directive;
- A Land Use Land Use Change and Forestry Regulation;
- Energy Efficiency Directive and Renewable Energy Directive; and,
- Promotion of alternative fuels for aviation and maritime.

The proposal to apply a separate ETS to road transport and buildings will have significant implications for Ireland. Given these sectors are currently subject to domestic carbon tax, the inclusion of these sectors in an ETS could impose double taxation on the emissions associated with the energy use of these sectors. Ireland's position in respect of this is outlined below in Section 2.2. Ireland is in favour of an opt-out or derogation from the inclusion of road transport and buildings in a European ETS where an existing scheme to achieve emissions reductions in these sectors is in place.

### 2.1 Proposed revisions to the Energy Tax Directive

The ETD sets out excise duty rules covering all energy products used for heating and transport, as well as electricity. The proposed revisions to the ETD are currently subject to ongoing negotiation at working party level. The main proposed revisions to the ETD are:

- Minimum rates to be based on energy content and environmental performance rather than volume (see 2.2.1).

- Fossil fuel subsidies to be phased out over the period 2023 – 2033. This will impact the operation of the Diesel Rebate Scheme, the aviation and maritime sector, and the household exemption for electricity tax (see 2.2.2).
- The tax base will be broadened to include new fuels such as biofuels and hydrogen.

The proposed revision of the ETD provides specifically for the phasing out of the exemption from the application of excise duty on commercial aviation and maritime<sup>9</sup> sectors.

For aviation, a gradual phasing in of a minimum rate of tax on kerosene is proposed starting in 2023 with incremental increases of 10 per cent per year, reaching a minimum of €10.75 per gigajoule (GJ) by 2033.<sup>10</sup> This will apply to intra-EU flights (excluding cargo only flights and business flights).

Additionally the removal of free ETS allowances allocated to the aviation sector by 2026 is also proposed.

Sustainable aviation and maritime fuels will benefit from a minimum rate of zero to encourage their uptake.

### **2.1.2 Removal of the relief from excise on electricity used by households**

The revised ETD proposes a gradual removal of the relief from electricity tax for electricity used by households with the application of the minimum rate of taxation for electricity for non-business use of €0.57 per MWh from 2023 increasing to €0.67 per MWh in 2033. The proposal also allows for the gradual continuation of the exemption until 2033 for households classed as vulnerable and a provision for reduced rates in these cases thereafter.

## **2.2 Ireland's position (from DECC) [CONFIDENTIAL]**

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