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## About You

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Organisation:
Society of the Irish Motor Industry

## Chapter 1 - General Questions

1 What elements of the taxation and welfare systems do you feel are working well?

Please elaborate below::

The Motor Industry generates considerable tax revenues, for the Exchequer. Collectively over €5billion is generated through VAT, VRT, Motor Tax and fuel taxation each year. It is our experience that Revenue's administration of the tax system is highly efficient both in the collection and refunding of any taxes due. Overall, Revenue is supportive of business, as evidenced by their approach over the course of the COVID-19 pandemic.

2 What elements of the taxation and welfare systems do you feel are not working well?

Please elaborate below::

The Motor Industry has ongoing concerns over tax policies relating to its sector. In particular the operation of the Vehicle Registration Tax (VRT) system is damaging to motor retailing. It is an inefficient tax, and acts as a drag on new car sales, which in our view is counter-productive from a number of perspectives, including environmental and economic. This is not just the view of the Industry. In 2009, SIMI made a submission to and met with the last Commission on Taxation. The Commission published the following recommendations:

"We also recommend the gradual phasing out of VRT over a ten-year period and its replacement with taxes on motor usage. A car scrappage scheme, confined to the purchase of electric cars and vehicles with very low carbon emissions, may also be appropriate."

SIMI fully supports the Commission's recommendation to phase out VRT over the longer term. VRT is not a stable, consistent tax. The level of tax collected depends largely on strong economic activity, this is evidenced by the last recession where the exchequer saw a drop in €1 billion due to car sales falling to unprecedented low levels from 151,444 in 2008 to 57,118 in 2009.

3 Good quality public services, welfare provision and infrastructure are financed mainly from taxation and PRSI. What are the features that you think our taxation and welfare systems should have in order to meet these needs?

Please specify::

The features underpinning Ireland's taxation systems going forward should include fairness, stability, consistency, environmentally positive and administrative efficiency. As outlined above VRT is not a stable tax and relies on strong economic activity, which can vary materially from year to year. The high levels of VRT could prove to environmentally counter-productive, as people hold on to their older smokier cars for longer. In this regard, VRT should be phased out over the medium-term, replacing VRT with usage taxes, including environmentally focused road pricing systems should be considered.

4 In your view, what main reforms are necessary so that the Irish taxation and welfare systems can embrace the opportunities and meet the challenges that Ireland may face over the next 10-15 years?

Please outline your views::

Overall EU and Irish Government policy, including taxation, over the next 10-15 years will be fundamentally focused on the environment. This is an opportunity as well as a challenge. As the national vehicle fleet transitions towards lower and zero-emitting cars, there will be a significant reduction in

some taxation sources, particularly in relation to fuel. In addition, if VRT is truly to be an environmental based tax system, VRT should be zero for zero-emitting vehicles. Replacing these taxes should focus on the usage, not on the purchase cost of a new vehicle (A significant amount of VAT collected will remain on new vehicle registrations.). A move to an environmentally based road pricing system should be the focus, while at the same time any measures must allow access to transport, public or private, to those who can least afford it.

## Chapter 2 - Fiscal Sustainability

1 What reforms to the taxation and welfare systems should be considered to ensure the system is sustainable and resilient and that there are sufficient resources available to meet the costs of public services in the medium and longer term?

Please specify taxation reforms you consider important::

A move away from transaction taxes on new vehicles and their replacement with usage-based taxes which are more secure, consistent, sustainable and reliant.

Please specify welfare reforms you consider important::

2 Rate each issue below in terms of strategic importance to the taxation and welfare system over the next 10-15 years (1 being least important and 5 being most important):

importance options - Achieving good public health outcomes for our people:
1

importance options - Addressing the climate crisis:
1

importance options - Adequate social transfers and benefits:
1

importance options - Growing employment:
1

importance options - Sustainability of public finances:
1

importance options - Sustained economic growth:
1

3 Given approaching demographic pressures and future uncertainties, future funding of public services is a critical issue. In order to meet these challenges, what is the appropriate balance between the taxation of a) earned income, b) consumption e.g. VAT and c) wealth e.g. capital acquisitions tax?

Please outline your views::

Income taxes, PSRI, high PAYE, USC, VAT, collected in Ireland are relatively higher than EU Average. The problem really arises as the entry level for the higher PAYE rate is too low; this needs to be addressed. Any changes to the taxation system should support SMEs. In recent years we have seen the introduction of tax on maternity benefit, the removal of the redundancy support from the Social Fund and we also have the pending introduction of mandatory sick pay and pending increases in corporation taxes. These are all an additional cost to businesses and impacting on their running costs particularly for SME's.

## Chapter 4 - Climate

1 As Ireland moves to a low carbon economy, what should be the role of the taxation and welfare system in:

a) taking advantage of opportunities? :

The 2021 Climate Action Plan has committed to a 51% reduction in transport emissions by 2030. The Plan outlines the aim to have 845,000 electric vehicles (EVs) on the road by 2030 with a strong focus on fully electric vehicles. In addition, in the previous 2019 Plan, it was also announced that there will be a ban on the sale of new internal combustion cars from 2030. The figures outlined in the Climate Action Plan are hugely ambitious and given the recent low levels of new car sales seem difficult to achieve. However, there is also a real opportunity here, but only if the right economic and taxation framework is in place. The new car market will effectively be the only reliable source of EVs for the next decade and accordingly we will need to see strong growth in new car sales if the ambitious targets outlined in the Climate Action Plan are to be realised. In addition, the Climate Action Plan also highlights that Ireland must promote the most fuel-efficient internal combustion engine (ICE) vehicles within the legacy vehicle fleet. However, the seemingly annual VRT increases in conjunction with the removal of EV supports runs counter to reducing the emissions profile of the national vehicle fleet. As VRT has an emission-based focus, we believe vehicles that have zero emissions should have 0% VRT. In addition, VRT on new family cars should not be increased in the next few Budgets. These cars have significantly lower emissions compared to older cars currently in the fleet and on many of the used imports that have been substitutes for new cars in recent years. By rejuvenating the national fleet with a material increase in new car sales, we can reduce the age of cars on the road and optimise the emission savings from lower and zero emitting cars. As new cars attract a significant amount of VAT (average c€5,000), a significant increased new car activity will increase VAT Revenues while at the same time reducing emissions and the associated EU fines.

b) mitigating the risks? :

Consumer trends at the moment indicate that motorists are holding onto their current car for longer. Increased production costs for new cars is one factor however there is also significant consumer uncertainty regarding what is the most suitable fuel type to purchase. As a result of the fall in new car sales and the consistent under-performance of the new car market since 2008, Ireland is not benefitting from the reduction in CO2 of new cars, instead each year the national car fleet is getting older. In addition, the lower level of new car sales means that we are foregoing valuable tax revenues.

In order to drive down emissions, we must eliminate the worst polluters from the national fleet. It should be underlined that most car owners do not buy a new car, they buy a used car. The more used EVs available in the national fleet, the greater the opportunity for those in older cars to trade-up to newer used EVs. In addition, more nuanced incentives could be developed such as "car swappage scheme" to encourage people to change from their older, higher emitting car to a newer car including ICE cars. For the foreseeable future the business sector has the most potential to add significant numbers of EVs to the national fleet in the short-term, which would will quickly help to establish a vibrant used car EV market by the middle of the decade. Businesses typically hold onto a new car for 2-3 years, and this market can create valuable EV trade-ins. The majority of private car buyers will only ever purchase a used car, so it is vital that we create a used EV market as a matter of urgency to allow those buyers who can't afford a new car to be in a position to choose an EV, which could be in three, six- or nine-years' time. Incentives for business purchases and leases such as VAT relief on the purchase costs in conjunction with extending the 0% BIK for EVs would send a very positive message to businesses who, at the moment, are more likely to make the change to EVs.

c) in meeting Ireland's emissions targets?:

VRT has a strong environmental focus, that is linked to the CO2 emissions of the car. There are currently 20 bands ranging from 7% to 41%. The average new family car attracts over €10,000 (VAT & VRT) in tax which is one of the highest rates of car taxation in Europe. Tax increases are one contributing factor, however the cost of producing new cars to reach the EU emission standards is also a factor. The average OMSP of a new car is now €33,682 which is 45% more expensive than 10 years ago. Since 2008, over the past thirteen years, 2016 is the only year that car sales almost reached "normal" levels, with 147,000 new car sales. Despite the ever-improving economy from 2013, growth in new car sales stalled and then reversed largely due to the combination of Brexit and the heavy taxation burden on new cars. In 2009, the average new car emissions of cars registered in Ireland was 152g per km, in 2021 this figure has fallen to 94g, 39% decrease since 2009 (NEDC figures). However, Ireland has not benefitted fully from the huge CO2 decreases in new cars due to the persistent low levels of new car sales outlined above. The average age of the national fleet continues to get older each year and is now in the region of 9 years old, this is largely due to the poor performance of the new car market and the significant levels of used imports since 2016, this is contrary to the Government's Climate ambitions.

The new EVs sold in the next four years will still be on the road in 2030 and beyond, and the quicker we can increase the number of EVs sold, the quicker we can create a functioning used EV car market. At the same time, taxation policy should encourage consumers to trade up to a newer car, which will bring forward the day in which drivers of older cars can have access to purchasing an EV. With used imports becoming more expensive, due to Brexit, and with the UK keeping their EVs for the own environmental targets, the new car market will effectively be the only significant source of EVs for the next decade and accordingly we will need to see strong growth in new car sales if the ambitious targets outlined in the Climate Action Plan are to be achieved.

2 Are there existing taxation and welfare measures that are counter-productive to Ireland's climate change commitments?

Yes

If yes, please specify::

As mentioned above VRT is not a stable form of taxation and should be phased out over the longer term. As VRT has an emission-based focus, we believe vehicles that have zero emissions should have 0% VRT.

We have seen a gradual erosion in recent years of supports for Electric Vehicles, this is concerning as the EV market has not yet reached the levels required to create an active used EV market. Currently electric vehicles – fully electric and plug-In vehicles, make up 1.9% (43,742 October 2021) of our national fleet, the Climate Action Plan has indicated that this should grow to 38% by 2030. It is far too early to begin to removal of the current incentives and the following should be extended until 2025 or until thresholds have been reached:

- Extension of the 0% Benefit In Kind for Electric Vehicles out to 2025
- Reintroduce the SEAI grant for Companies purchasing fully electric vehicles
- Retention of the current SEAI Grant for Electric Vehicles
- Extension of the current VRT relief for Electric Vehicles

To what extent are these justified in the Irish context and are any reforms necessary?:

Typically, those with the oldest vehicles are more financially challenged and have less equity in their car to trade-up to a new car, the likely cost of trying to change to a new EV from an older petrol or diesel car is unachievable for many consumers. For them, their EV journey will take significantly longer, and in the meantime, they will be trapped and subject to increasing fuel prices as well as increased carbon and potentially other taxes, from which they will not have the potential to escape. These car owners, some of whom do not have other transport alternatives, will need to be supported. It is vital that we sell as many new EVs as possible in order to create a used EV market as a matter of urgency.

The Climate Action Plan 2021 indicated that "All increases in carbon tax receipts amounting to €9.5 billion out to 2030 are earmarked for targeted social protection measures, an expansion of retrofitting particularly for social and low-income homes, and agri-environment projects." A percentage of the increases in carbon taxes should also be allocated to transport to assist with a just transition. These increases should help to fund the incentives for electric vehicles and also investment in charging infrastructure.

3 What changes should be made to the taxation system to ensure longer term fiscal sustainability given the expected impact of the continued decarbonisation of the Irish economy, in particular the impact of reducing tax revenues from energy, carbon and motor taxes?

Please detail the changes::

The use of the car into congested centres should be focused on rather than the actual ownership of cars. Usage based taxes such as environmental based congestion charging or road pricing should be considered as an alternative to VRT

## Chapter 6 - Supporting Economic Activity

1 How can Ireland maintain a clear, competitive, sustainable, and stable taxation policy with regard to its attractiveness to Foreign Direct Investment (FDI) in light of the rapidly changing global environment?

Please outline your views::

A leading car manufacturer, Jaguar Landrover (JLR) is collaborating with a number of leading tech companies in a new research hub in Shannon that focuses on research, development and innovation in the area of Autonomous Connected Electric Shared Vehicles including Connected and Autonomous Vehicles (CAV). The Future Mobility Campus Ireland (FMCI) uses 12km of roads that will have sensors, infrastructure, smart junctions that will help to autonomous test cars to communicate and receive information. They will also be using 450km of roads throughout Ireland to test this next generation technology. This work will provide key data and research in providing the next generation of car mobility. There may be an opportunity to make Ireland a centre of excellence for testing these exciting new technologies. The groundwork has already been laid; we need to see this expanded upon in the short term.

2 How can the taxation environment support indigenous enterprise, particularly small and medium sized enterprises (SMEs) to be productive, to innovate and be competitive internationally?

Please specify::

3 With regard to starting, scaling or growing a business in Ireland:

a) what features of the current taxation system work well?:

b) what features do not work well and how can these be improved?:

## Chapter 7 - Tax Expenditures

1 How do you think the process of reviewing taxation measures and taxation expenditures is currently functioning?

Please outline your views::

SIMI made a submission and met with the last Commission in 2009. The last Commission recommended the following in their 2009 report:

“We also recommend the gradual phasing out of VRT over a ten-year period and its replacement with taxes on motor usage. A car scrappage scheme, confined to the purchase of electric cars and vehicles with very low carbon emissions, may also be appropriate.”

Almost thirteen years on from this report, it would appear that these recommendations weren’t followed through. Instead of allowing cars to gradually drift into lower VRT bands until 0% VRT was reached, VRT rates have increased. In Budget 2020, it was announced that the structure of VRT would change from 11 bands ranging from 14% to 36% depending on $CO_2$ emissions to 20 bands ranging from 7% to 37%, these were further adjusted in Budget 2021 with 12 of the bands seeing an increase in VRT rates, with the range changing to 7% - 41%.

Decisions to adjust taxation generally, are announced in the annual Budget in October each year, with implementation from the following January, less than three months later. This process takes no account of manufacturing and supply chains. The means that Industries such as the Motor Industry do not have an adequate lead-in time to allow for adjustment in their ordering to reflect any new taxation regime that increases the cost of vehicles. Ideally taxation changes should not be implemented until the following July, 9 months after the announcement or the following January, to give the Industry time to adjust, so their ordering can reflect any new taxation regime.

How well defined do you think the benchmark taxation system is in Ireland?:

2 How do you think the process of taxation expenditure review could be improved?

Please specify::

3 Please give examples of taxation expenditures that you believe run counter to public policy/are badly designed?

Please specify::

Please explain your rationale? :

4 Please provide examples of taxation expenditures that you believe work well, either in Ireland or internationally?

Please specify::

## Chapter 10 - Submit Your Ideas

1 Taking into account the Terms of Reference, submit any other thoughts, ideas or feedback on taxation and welfare in Ireland:

Please outline your views::

The Motor Industry generates considerable tax revenues, for the Exchequer. Collectively over €5billion is generated through VAT, VRT, Motor Tax and fuel taxation each year.

The VRT system is damaging to motor retailing. It is an inefficient tax, and acts as a drag on new car sales.

SIMI fully supports the 2009 Commission on Taxation's recommendation to phase out VRT over the longer term.

If Vehicle Registration Tax is truly to be an environmental based tax system, VRT should be zero for zero-emitting vehicles.

VRT is not a stable, consistent tax. This should be phased out over the medium-term, replacing VRT with usage taxes, including environmentally focused road pricing systems should be considered.

Income taxes, PSRI, high PAYE, USC, VAT collected in Ireland are relatively higher than EU Average. The problem really arises as the entry level for the higher PAYE rate is too low; this needs to be addressed.

The Climate Action Plan also has outlined outlines the aim to have 845,000 electric vehicles on the road by 2030. The new car market will effectively be the only reliable source of EVs for the next decade and accordingly we will need to see strong growth in new car sales if the ambitious targets outlined in the Climate Action Plan are to be realised.

Consumer trends at the moment indicate that motorists are holding onto their current car for longer. In order to drive down emissions, we must eliminate the worst polluters from the national fleet. It should be underlined that most car owners do not buy a new car, they buy a used car. Swappage schemes should be considered to encourage people to change from their older, higher emitting car to a newer car.

Businesses typically hold onto a new car for 2-3 years, and this market can create valuable EV trade-ins. Incentives for business purchases and leases such as VAT relief on the purchase costs in conjunction with extending the 0% BIK for EVs would send a very positive message to businesses.

We have seen a gradual erosion in recent years of supports for Electric Vehicles, this is concerning as the Electric Vehicle market has not yet reached the levels required. the following should be extended until 2025 or until thresholds have been reached:
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A percentage of the increases in carbon taxes should also be allocated to transport to assist with a just transition.

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