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1. Introduction

2022 has been a volatile year for energy markets. Just as economies emerged from the Covid-19 crisis in expectation of a phased return to normal, geopolitical tensions – in particular the war in Ukraine- combined with legacy issues of the pandemic to create fuel supply constraints. These constraints have bled into other markets and sparked an inflationary trend. Governments worldwide have responded with short term measures such as excise rate reductions seeking to cushion the impact on consumers.

While the impacts of the fuel crisis are being acutely felt across the country, the threat which climate change poses to society and the economy continues. Successive reports from the Intergovernmental Panel on Climate Change (IPCC) warn us that there is an urgency to the climate crisis; the window of opportunity to address, reverse and minimise the impacts of climate change is closing. The latest data from the Environmental Protection Agency (EPA) acknowledges the potential national emissions reductions achievable, if planned policy measures are implemented, but warns that we must follow through on these measures if we are to meet our emissions reductions targets.

Taxation, operating in conjunction with other measures, provides an important climate action policy lever. Fiscal measures, which help to incentivise the use of greener fuels and technologies and a move away from more pollutant fossil fuels, play an important role in the journey to a carbon neutral economy. The 2020 Programme for Government and the 2021 Climate Action Plan set the background for the implementation of policy framework in the climate action area. Some policy measures, such as the carbon tax trajectory, have already been introduced. Other measures such as the removal of fossil fuel subsidies will be evaluated in this context.

In line with the Programme for Government commitment, the Commission of Taxation and Welfare was established in 2021 to consider how the taxation and welfare systems can best support economic activity and promote increased employment and prosperity. The Commission is also examining "*how the taxation system can be used to help Ireland move to a low carbon economy as part of the process of meeting its climate change commitments as set out in the Climate Action and Low Carbon Development (Amendment) Act 2021. This will include ensuring the sustainability of environmental tax revenue resulting from decarbonisation of the economy*". As part of this work, the Commission has engaged in public

consultation and with stakeholders to inform its considerations and recommendations. The Commission is due to report to the Minister for Finance in July 2022.

This paper examines energy and environmental taxation, including motor vehicle taxes, setting out the structure and current operation of taxation regimes which come under this category of tax. The paper also presents options for consideration in future Budgets.

2. Energy Taxes

2.1 Overview

This Chapter examines energy taxes – Mineral Oil Tax which applies to liquid fuels and to natural gas used as a propellant, Natural Gas Carbon Tax which is applied to all other fuel uses of natural gas, Solid Fuel Carbon Tax which applies to coal and peat and Electricity Tax which applies to electricity supplies in the State. The chapter also considers current indirect fossil fuel subsides which exist in the tax system by virtue of reduced rates, exemptions and reliefs of taxation on fossil fuels.

EU LEGISLATIVE FRAMEWORK

The Energy Taxation Directive (ETD) is the legislative framework for the application of excise duty on energy products and electricity in the EU. The ETD was first implemented in 2003 with a view to ensuring harmonization of the internal market and sets out minimum rates of excise for fuels and electricity used for heating and motor purposes. The ETD also provides for exemptions, reliefs and reduced rates for specific fuels and fuel uses.

As part of the Fit for 55 Package, the EU Commission published a proposal to revise the ETD in 2021. The recast proposal aims to align the ETD with the current climate objective of the EU and changes include minimum rates being based on environmental performance rather than volume, the removal of certain fossil fuel subsidies and the inclusion of new fuels within the scope of the ETD. The Fit for 55 Package also included proposals on a Carbon Border Adjustment Mechanism and reform of the EU Emissions Trading System. An overview of the state of play of these files and their relevance for domestic taxation policy is included at section 2.6.

IRELAND'S CO2 EMISSIONS TARGETS

The Climate Action and Low Carbon Development (Amendment) Act 2021 set Ireland on a legally binding path to net-zero emissions no later than 2050, and to a 51% reduction in emissions by the end of this decade. The Act provides the framework for Ireland to meet its international and EU climate commitments and to become a leader in addressing climate change.

Recent data from the Environmental Protection Agency (EPA) estimates that total Greenhouse Gas Emissions (GHG) emissions in Ireland increased by 6% in 2021[1].

Table 1: National GHG Emissions by Sector for 1990, 2019 and 2020 [2]

Sector	1990	2019	2020
	%	%	%
Waste	2.9	1.48	1.6
Energy Industries	20.8	15.77	15.1
Residential	13.8	10.9	12.3
Manufacturing Combustion	7.5	7.66	7.8
Commercial Services	1.8	1.49	1.6
Public Services	2.1	1.48	1.6
Transport	9.5	20.35	17.8
Industrial Processes	6	3.77	3.7
F-gases	0.1	1.79	1.4
Agriculture	35.5	35.31	37.1

As the table shows, agriculture is the sector with the largest share of emissions and its share of national emissions increased by nearly 2 per cent in 2020. While the share of transport related emissions decreased between 2019 and 2020, this can be mostly attributed to the effects of lockdown and the increase on 1990 levels remains stark.

[1] https://www.epa.ie/news-releases/news-releases-2022/epa-greenhouse-gas-emissions-projections-highlight-the-need-for-urgent-implementation-of-climate-plans-and-policies-.php
[2] Source – Environmental Protection Agency : https://www.epa.ie/our-services/monitoring--assessment/climate-change/ghg/latest-emissions-data/#

2.2 Fuel Taxes – Rates, Volumes and Yields

The majority of revenue yields from energy taxes comes from fuels used in road transport and to a lesser extent the heating of buildings. CSO data[3] shows that in 2020 households paid 54% of environmental taxes, services industry bore 33% of the environmental tax share, while environmental taxes levied on industry amounted to 12% of the total share and agricultural was 1%.

The application of excise duty on fuels provides revenue of approximately €2.5 billion annually. 2020 and 2021 saw lower amounts, almost certainly attributable to the effects of public health restrictions during this time.

MINERAL OIL TAX RATES

Mineral Oil Tax (MOT) is an excise that is applied to mineral oils including diesel, petrol, kerosene and LPG and also to natural gas used as a propellant. MOT comprises a carbon component and a non-carbon component. The carbon component is more commonly referred to as carbon tax and is proportional to the amount of carbon dioxide emitted when the fuel is combusted. MOT is applied on a volumetric basis, except for MOT on natural gas used as a propellant which is based on energy content.

While the causes of the increase in fuel prices in 2022 are global in nature, the Government took the decision to provide some relief from increased prices by lowering excise on diesel, petrol and MGO, among other measures. This is further detailed under the section on the fuel crisis.

Table 2 sets out the tax rates currently applicable on the main mineral oil products (per 1,000 litres) together with the volumes released for clearance in 2021. For comparison, the table includes the reduced rates currently applicable to petrol, diesel and MGO which were introduced from 10 March 2022 and were extended in April up until 11 October, as well as the rates which would be applicable if the Government had not reduced rates on these fuels.

[3]https://www.cso.ie/en/releasesandpublications/er/eaet/environmenttaxes2020/#:~:text=Household%20environment%20taxes%20rose%20to,share%20of%20total%20environment%20taxes. Note - the CSO also includes levies such as the PSO and NORA levies as taxes for this purpose.

Table 2: Current Fuel Tax Rates and Volumes

Product	MOT Non Carbon Component (per 1000 Litres) (€m)	MOT Carbon Component (per 1000 Litres) (€m)	Mineral Oil Tax (per 1000 Litres) (€m)	VAT	Volume 2021 (millions litres)
Petrol (reduced rate)	371.11	94.87	465.98	23%	825
Petrol (without reduction)	541.84	94.87	636.71	23%	
Auto diesel (reduced rate)	295.64	109.74	405.38	23%	3,398
Auto diesel (without reduction)	425.72	109.74	535.46	23%	
MGO (reduced rate)	0.00	111.14	111.14	13.5%	1,173
MGO (without reduction)	47.36	111.14	158.5	13.5%	
Kerosene	0.00	103.83	103.83	13.5%	1,107
Jet Kerosene[4]	Exempt	Exempt	Exempt	Exempt	Exempt

[4] The Energy Tax Directive 2003/96/EC exempts fuel used for commercial air navigation

In addition, the carbon tax is applied to natural gas and solid fuels at the current rate of €41/tCO2 while electricity tax is applied to electricity generated from fossil fuels (with households exempt from this duty) at the very low rate of €1 per Mega Watt Hour (MWh)

FUEL TAX REVENUE YIELDS

Table 3 details the annual yield by tax and fuel type. Excise on heavy oils, which include auto diesel, marked gas oil, kerosene and fuel oil, provide the largest yield at over €1.4 billion in 2021.

Table 3: Exchequer Receipts from Fuel Taxes 2014 – 2020 (€millions)

	2014 €m	2015 €m	2016 €m	2017 €m	2018 €m	2019 €m	2020 €m	2021 €m
Excise - Light Oils	800	768	721	627	598	568	425	445
Excise - Heavy Oils	1,219	1,346	1,447	1,434	1,565	1,596	1,390	1,481
Excise - LPG	0.23	0.3	0.27	0.23	0.2	0.2	0.13	0.13
Carbon Tax	385	419	430	420	431	430	494	652
Electricity Tax	5.5	4.5	4.6	3.6	2.5	2.3	2.1	5.2

Table 4 shows cumulative figures for Exchequer receipts to the end of May in 2019, 2020, 2021 and provisional 2022 receipts. Receipts are shown for light oils (primarily petrol and aviation gasoline) and other oils (mainly diesel, MGO and kerosene). The impact of the 2020/2021 public health restrictions can be seen in the year-on-year reductions. As diesel is primarily the fuel used by business and particularly heavy goods haulage, the impact was less than that of petrol. There has been a slight recovery in 2022 provisional figures to the end of May.

Table 4: Exchequer Receipts to the end of May 2022

Exchequer Receipts to the end of May (€m)				
	2019	**2020**	**2021**	**2022**
Light Oils	232.0	180.1	148.1	174.3
Other Oils	641.3	570.0	541.6	554.1
Total Oils	873.3	750.1	689.7	728.4

2022 FUEL PRICES AND FISCAL RESPONSE MEASURES

2020 saw historic lows in fuel markets in light of the effects of global lockdown measures and demand related impacts in markets. The reopening of economies worldwide created increased demand at a time when supply remained constrained. These factors, as well as increased carbon pricing and climate action commitments saw increases in fuel prices globally in 2021. This trend continued into 2022 and combined with geopolitical tensions and the war in Ukraine has led to unprecedented increases in fuel prices globally.

Figure 1 overleaf shows the price of Brent Crude Oil over the last 3 years. The price was approximately $64 per barrel in July 2019, saw lows under $10 per barrel in April 2020 followed by a price of over $130 per barrel in February 2022 at the outset of the Russian invasion in Ukraine. The price as per mid-June 2022 is approximately $128.

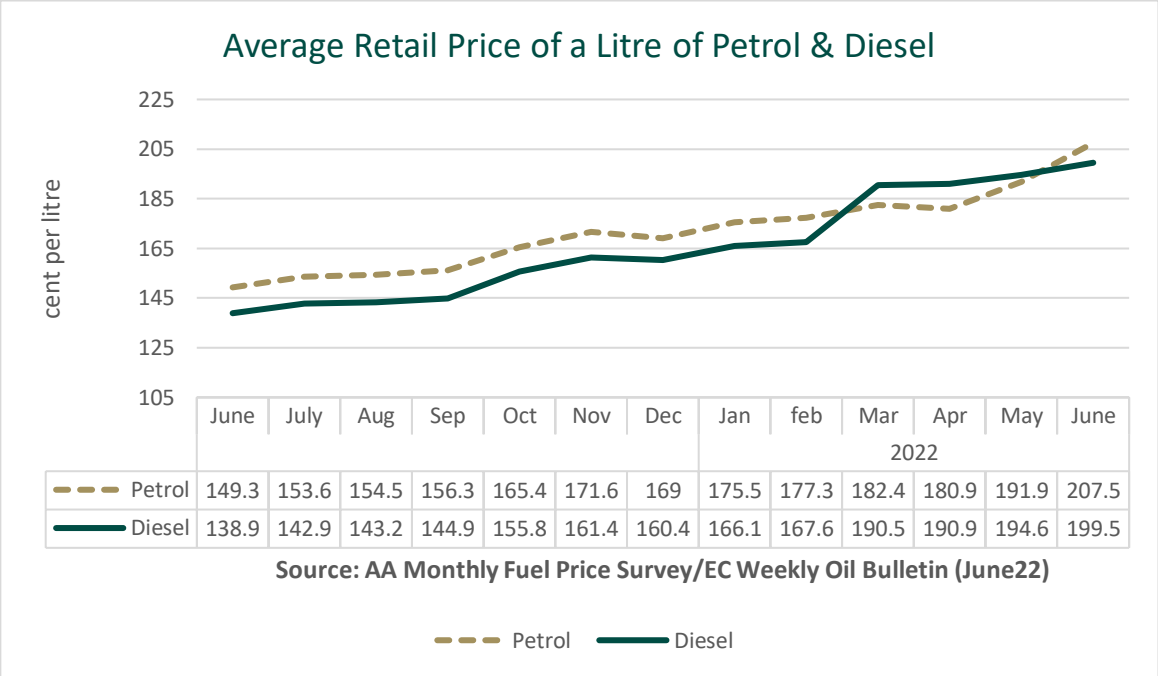
Figure 1: Brent Crude Oil Price per Barrel July 2019 to June 2022

[5]

Figure 2 shows the average retail price of auto diesel and unleaded petrol in Ireland between June 2021 and June 2022. The impact of the war in Ukraine on prices was evident with increased average prices in March, with a larger price increase on diesel. The March excise reduction measures helped to stabilise prices but continued increases in pre-tax prices contributed to the ongoing upward trend in retail prices.

[5] Source - https://www.macrotrends.net/2480/brent-crude-oil-prices-10-year-daily-chart

Figure 2: National Average Retail Price of Diesel and Petrol June 2021 – June 2022



	June	July	Aug	Sep	Oct	Nov	Dec	Jan	feb	Mar	Apr	May	June
								2022					
Petrol	149.3	153.6	154.5	156.3	165.4	171.6	169	175.5	177.3	182.4	180.9	191.9	207.5
Diesel	138.9	142.9	143.2	144.9	155.8	161.4	160.4	166.1	167.6	190.5	190.9	194.6	199.5

EXCISE AND VAT RATE REDUCTIONS

In addition to a number of targeted welfare measures, a broad reaching energy tax creditand public transport fare reductions, the Government also provided for temporary reductions to the rates of Mineral Oil Tax applied to auto diesel, petrol and Marked Gas Oil to lessen the inflationary impact of rising fuel prices on households and businesses. VAT inclusive reductions in the order of 15 and 20 cents were applied to auto diesel and petrol in March 2022 to continue until 11 October 2022. The non carbon component of Marked Gas Oil has also been reduced by over 5 cents VAT inclusive relative to the start of the year. Additionally, the Government reduced the rate of VAT on gas and electricity from 13.5 per cent to 9 per cent on a temporary basis until the end of October. These excise and VAT reduction measures are estimated to cost over €450 million in terms of revenue foregone.

2.3 Cross-border fuel price comparison of rates and prices

Price differentials in fuels arising from lower rates of taxation and exchange rate fluctuations in an area with an easily traversable land border can lead to "fuel tourism", whereby products are bought at a cheaper rate in one jurisdiction and consumed elsewhere. Fuel tourism in particular arises with regard to diesel due to lower rate of excise on diesel in this jurisdiction compared with Northern Ireland.

Taxes on solid fuels are higher in this State (lower VAT rate and no carbon tax in Northern Ireland) and this, together with different environmental standards, incentivises the sale of coal from Northern Ireland to this jurisdiction. Table 5 below shows the different rates of taxation and the retail prices of auto fuels in Northern Ireland and this State.

Table 5: Fuel Excise and Prices in N.I. and R.O.I.[6]

Fuel	Excise per litre (€m)		Avg. Retail Price per litre (€m)	
	UK	R.O.I.	N.I.	R.O.I.
Diesel	0.61930	0.40538	2.227	2.059
Petrol	0.61930	0.46598	2.170	2.169

The UK has equal rates of excise on petrol and diesel whereas there is a difference of some 6 cents in Ireland currently due to the temporary emergency reduction in excise applying until Budget night 2022. Ordinarily there is an excise gap of approximately 11 cents between diesel and petrol in Ireland. As shown above, the June 2022 prices of petrol in Northern Ireland and the State are close to equal, while diesel is about 17 cents cheaper here than in Northern Ireland. This price gap can serve to incentivise cross-border purchases of diesel in border areas.

A study published by the ESRI in 2018 estimated that fuel tourism contributed tax receipts to the Irish Exchequer of about €28 million from petrol and €202 million from diesel at 2015 rates,

[6] *IE Prices as per EC Weekly Oil Bulletin 13.6.22 - NI Prices as per Consumer Council 16.6.22 (https://www.consumercouncil.org.uk/fuelpricechecker/tool) Exchange rate GBP:1.1696 Euro (ECB Eurosystem Policy and Exchange Rates 17.6.22)*

taking VAT into account along with excise and carbon taxes. According to the CSO, 76 kilotonnes of oil equivalent of diesel were the subject of fuel tourism in Ireland in 2020. This was a much lower figure than in prior years due to public health restrictions. While these cross-border purchases contribute to the Irish Exchequer, they also contributes to Irish emissions as emissions are recorded based on where the fuel is sold rather than where it is used.

MEASURES TO COMBAT FUEL SMUGGLING

Revenue and An Garda Síochána collaborate closely in acting against illegal cross-border activity including fuel laundering, and also cooperate with their counterparts in Northern Ireland under the framework of the North-South Joint Agency Task Force.

Over the last decade steps taken by Revenue to combat mineral oil fraud, including home heating oils, include the introduction of stringent supply chain controls and reporting requirements, a rigorous programme of risk focused enforcement action and the application of robust legislation. In addition, Revenue and the UK Revenue and Customs undertook a joint initiative to introduce a new marker for use in marked fuels, which came into operation in April 2015. The industry view is that the actions taken have been successful in curtailing fuel fraud.

After Covid-19 health restrictions impacted on the 2020 programme, Revenue resumed its Oil National Random Sampling programme. In mid-2021, 136 licensed fuel traders and 112 transport sector traders were selected. The programme showed evidence of the sale of laundered fuel at 4 of the 136 retail outlets tested. Evidence of misuse of reduced-rate fuel was found in none of the 112 transport sector traders tested. The findings of the sampling programme suggest that while the systematic selling of illicit fuel through retail outlets and its use in the transport sector is negligible, the illicit trade in fuel has not been completely eliminated. In 2021, 3 fuel laundries were detected and Revenue continue to remain vigilant to emerging trends and risks in this area.

2.4 Auto fuels and environmental health

Air pollution is the single largest environmental health risk in Europe. It is estimated that approximately 1,300 premature deaths a year occur in Ireland due to poor Air Quality[7]. It is well documented that both short- and long-term exposure to air pollution can lead to a wide range of diseases.

The EPA 2020 Report on Air Quality found a significant improvement in air quality in 2020 in light of Covid-19 travel restrictions and working from home policies applying in the main. However, the report warns that there is a strong likelihood of deterioration in future years if road transport returns to pre-2020 levels. In particular, the report highlights the risk of Ireland exceeding Nitrogen Dioxide (NO_2) EU city limit levels if transport trends return to pre-Covid patterns. Diesel engines are known to produce more NO_2 than petrol engine vehicles.

Figure 3 shows the volume of diesel and petrol consumed in Ireland between 2010 and 2021. As is clear from the chart, diesel is the predominant fuel. Diesel is generally the fuel used in business and therefore business consumption is responsible for a large share of the volume. The lower rate of excise applied to diesel reflects a policy designed to protect the competitiveness of businesses reliant on diesel as a fuel input. However, this has also contributed to a trend towards purchase of private diesel engine vehicles, as can be seen in Figure 4. More recently, a downward trend in purchase of diesel engine vehicles is evident between 2019 and 2021.

[7] Ireland's Air Pollutant Emissions 1990 – 2030, Environmental Protection Agency (published April 2022) https://www.epa.ie/publications/monitoring--assessment/climate-change/air-emissions/Air-Pollutant-Emissions-Report-2022_final.pdf

Figure 3: Consumption of Petrol and Diesel in Ireland 2010 – 2021[8]

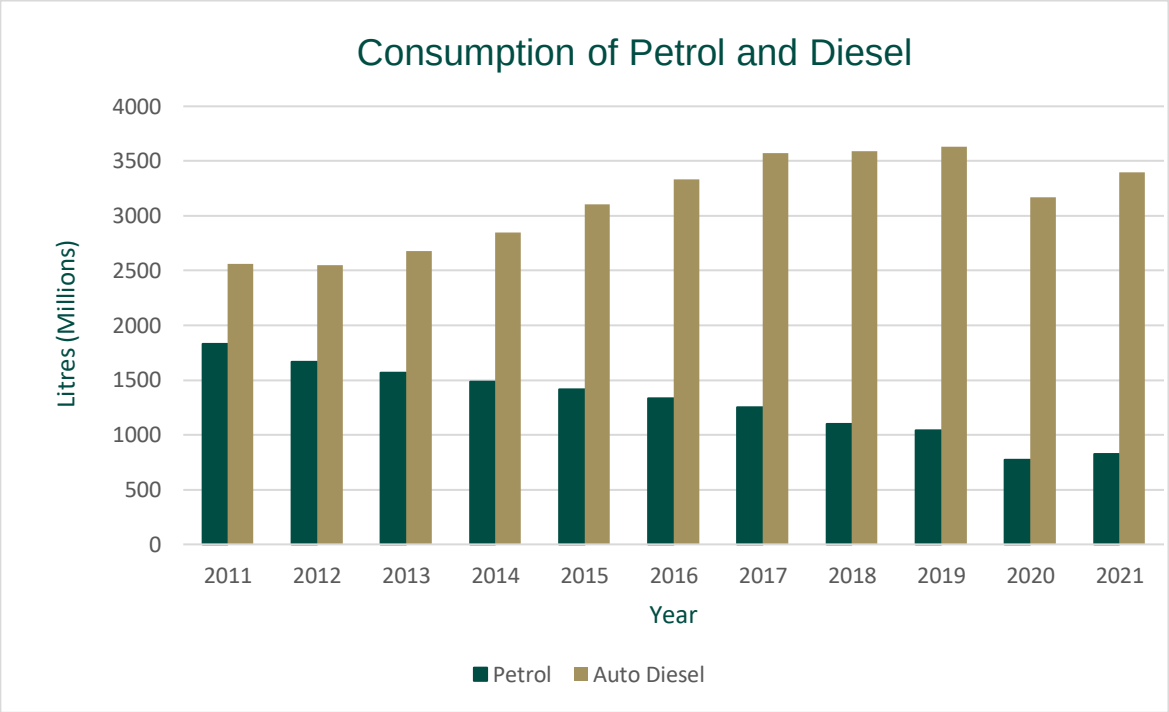
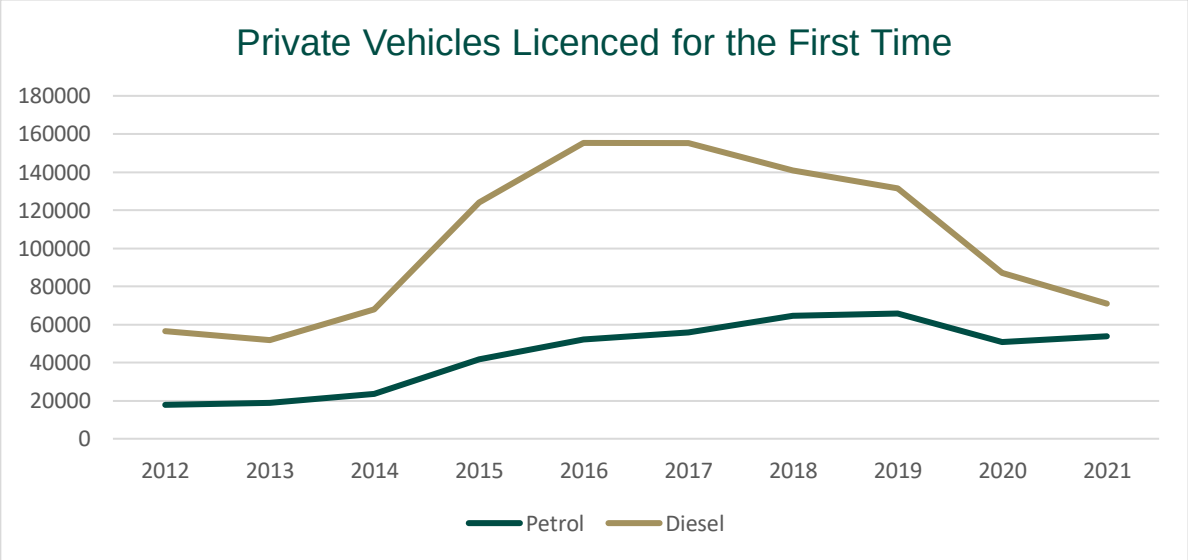


Figure 4: Private Vehicles Licenced for the First Time by Fuel Type 2012 – 2021[9]



[8] Source – Revenue excise volumes by commodity : https://www.revenue.ie/en/corporate/information-about-revenue/statistics/excise/receipts-volume-and-price/excise-volumes-commodity.aspx

[9] https://www.cso.ie/en/releasesandpublications/er/vlftm/vehicleslicensedforthefirsttimedecemberandyear2021/

2.5 Fossil Fuel Tax Subsidies

INTRODUCTION

Increased global climate action ambition seek the removal of fossil fuel tax subsidies in the near future. On a domestic level, the 2021 Climate Action Plan commits to developing a roadmap for the review and transition away from fossil fuel tax subsidies in the transport sector by 2024.

While there is no globally accepted definition of Fossil Fuel Subsidies, the WTO definition included in the Agreement on Subsidies and Countervailing Measures (ASCM) provides a basis for an assessment of this issue. In this regard, revenue forgone is an important feature of any such exercise.

Reduced rates of excise, exemptions, refunds and reliefs from taxation all fall under the scope of the definition (revenue foregone). Revenue foregone is the revenue lost which would otherwise have been raised were there no indirect subsidy in the form of a relief, exemption, and refund or reduced rate of taxation.

Subsidies incentivise fossil fuel activities as they make fossil fuels cheaper than they would be without the intervention. The origin of the subsidy is usually for broader social reasons, such as to prevent fuel poverty by ensuring that everyone can afford to heat their home. However, these reduced rates fail to properly account for the externalities caused by the combustion of fossil fuels.

The CSO Fossil Fuel Subsidies 2020[10] publication estimates total fossil fuel subsidies amounted to €2.2 billion in 2020. Direct fossil fuel subsidies accounted for 13% of total fossil fuel subsidies in 2020, while indirect subsidies arising from revenue foregone due to tax abatements accounted for 87%.

The CSO also examined the amount of revenue raised in energy taxes compared to expenditure on fossil fuel subsidies and expenditure on environmental subsidies aimed at protecting the air and climate, and reducing fossil fuel use. In 2020, €2.8 billion was raised in energy taxes, €0.4 billion was spent on environmental subsidies related to energy and emissions, and fossil fuel subsidies were, as stated above, €2.2 billion. The Department of Finance published a review of Green Budgeting from a Tax Perspective in October 2021. This paper examined the likely effects of fiscal policy on carbon emissions, considering both

[10] https://www.cso.ie/en/releasesandpublications/ep/p-ffes/fossilfuelsubsidies2020/

positive and negative effects. The analysis found that the tax system is broadly climate positive in monetary terms. Recent budgetary decisions have improved the climate positive impact of the tax system.[11]

The following section examines two indirect fossil fuel subsidies; the reduced rate on auto diesel, 'the diesel excise gap', and the Diesel Rebate Scheme.

THE DIESEL EXCISE GAP

As referenced above, auto diesel is the predominant road transport fuel in use in Ireland. The overall MOT rates currently applying to diesel and petrol are shown below in Table 6. As referred to earlier in the chapter, current rates applied to auto diesel and petrol are reduced due to a temporary reduction announced in March to apply until Budget night.

Table 6: Mineral Oil Tax Rates

	MOT Non-Carbon Component	MOT Carbon Component	Total MOT
	Cents per litre*		
Petrol	37.1	9.5	46.6
Auto diesel	29.6	10.9	40.5

*Rounded to nearest decimal

While the lower excise on diesel was originally conceived as a support to businesses reliant on diesel as fuel, it also contributed to an uptake of private diesel vehicles. Of the 2,232,174 private passenger vehicles registered on 31 December 2021, diesel engines comprised 58 %, petrol 36%, the remaining 6% were other fuel types (including electric, hybrid and gas)[12].

Excise on diesel and petrol in the UK are levied at the same rate and there have been many calls for equalisation of the diesel and petrol excise rates in Ireland on environmental and public health grounds. The Climate Change Advisory Council, the Joint Committee on Climate Action and the European Commission have all advocated for equalisation in recent years. The Government's 2019 Climate Action Plan committed to the equalisation of diesel and petrol excise rates 'over an appropriate period of time. The European Commission proposal for

[11] https://www.gov.ie/en/publication/7e491-taxation-measures/
[12] Source - Department of Transport

restructuring the Energy Tax Directive, published in July 2021, also aims to equalise the minimum rates of taxation on unleaded petrol and diesel on an energy content basis in the near future. This would lead to a higher charge on diesel on a volumetric basis given the higher energy content of diesel.

The trend toward 'dieselisation' of the national fleet is acknowledged, as are the associated negative impacts on public health and environmental standards. Previous Tax Strategy Papers have examined options for the gradual removal of the excise gap by setting out a pathway for achieving this equalisation of rates, notably by increasing the non-carbon component of diesel excise by some 2.32 cent/litre per annum over 5 years or by increments of 1.16 cent/litre annually over a 10 year timeframe. These remain valid options for a gradual removal of the diesel excise gap.

Increasing diesel by approximately 2 cent/litre is estimated to raise €77m in a full year. Increasing diesel by approximately 1 cent/litre would raise an estimated €38 million in a full year. These options would equalise the non-carbon component of Mineral Oil Tax. As increases in the carbon charge impact relatively more on the MOT carbon component of diesel that that of petrol, the overall MOT rate would be higher on diesel by the end of the timeframe.

THE DIESEL REBATE SCHEME

The Diesel Rebate Scheme (DRS) was introduced in 2013 as a measure aimed at protecting the competitiveness of the haulage and passenger transport sectors at times when the national average retail price of auto diesel was relatively high. The scheme currently provides a partial excise refund to qualifying hauliers and bus operators when the retail price of auto diesel exceeds €1.00 per litre (€1.23 incl VAT). The rebate amount gradually increases to a maximum rebate of 7.5 cent per litre. Given the current high price of fuels, the maximum payment is currently being received by those availing of the scheme.

Between 2013 and 2019 the scheme provided a marginal rate of compensation, to qualifying transport operators, of 30% of the excise paid when the average retail price of auto diesel was over €1.00 per litre (VAT exclusive) up to a maximum rate of compensation of 7.5 cents per litre when the price of auto diesel was €1.25 or over. Budget 2020 enhanced the Diesel Rebate Scheme as a temporary support measure in light of challenges facing the road haulage sector due to Brexit uncertainty. The marginal repayment increased from 30% to 60% when the retail price is over €1.07 (VAT exclusive) up to a maximum repayment rate of 7.5 cents when the retail price of auto diesel is €1.16 (VAT exclusive) or higher. This enhancement has been maintained to date.

As a fossil fuel subsidy, the scheme has been subject to criticism from an environmental perspective. Previous Tax Strategy Group papers have cited research from the ESRI that the DRS has been responsible for significant additional emissions of carbon dioxide, nitrogen dioxide and particulate matter, pollutants which are damaging to the environment and public health. Both the CSO and the Environmental Protection Agency refer to the DRS as a potentially environmentally damaging fossil fuel subsidy. As part of recommended greening of the taxation system, the 2021 OECD Environmental Performance Review called for phasing out the Diesel Rebate Scheme as soon as possible. The EU Commission proposal to revise the ETD also tables removal of the legislative basis of the DRS in the near future in light of its position as a fossil fuel subsidy.

INDUSTRY VIEWS

Representatives of the road haulage sector call for amendment of the DRS to give more favourable conditions to qualifying users in light of current high fuel prices and resultant pressure on the industry and wider economy. In correspondence sent to the Minister for Finance in January 2022, the Irish Road Haulage Association (IRHA) called for the entry point to the DRS 'the price floor' to be lowered to €0.90, the rebate amount to be increased to 60% for all repayment amounts and for the maximum repayment to increase to the maximum amount allowable under the EU Energy Tax Directive.

The Freight Transport Association of Ireland (FTAI) has also made representations seeking increased payment amounts, expansion of the scheme to include smaller vehicles and other fuels such as Compressed Natural Gas as well as monthly repayments rather than the current quarterly repayment procedure.

FUTURE DRS OPTIONS

National and international climate action ambition places importance on decoupling the economy and society from fossil fuel dependence. Removal of fossil fuel subsidies which incentivise consumption of fossil fuels is necessary to achieve this. A gradual phase out of fossil fuel subsidies, such as the DRS which act to support heavy consumption of fossil fuels, must therefore be considered in future budgets.

CAN THE DRS BE ENHANCED?

As mentioned above, industry have made calls for the scheme to be made more generous, particularly in the current environment of increased fuel costs. However in practical terms it has to be stated that there is currently no potential for enhancing the scheme, as the existing maximum repayment amount under the DRS of 7.5 cents per litre when combined with the March excise reductions brings diesel excise levels to the EU minimum. In summary, the minimum excise rate allowable on auto diesel is 33 cents per litre. Currently the MOT on autodiesel is 40.53 cents. When the maximum DRS repayment is taken into account, the effective excise rate is 33.03. Therefore there is no scope for further improvements.

OPTIONS TO PHASE OUT THE DIESEL REBATE SCHEME

Amending the price floor could take the form of gradual annual increases which means that refunds at the lower spectrum of prices are initially phased out leading to removal of repayments overall in subsequent years. This would have the benefit of ensuring a level of support to essential users of the DRS at higher prices and allowing for their transition to alternative fuels as investment and advancement in that area evolves. The rebate amount at higher levels could be retained at the current rates or gradually reduced in tandem with the price floor increases. However, in the current context of high fuel prices, this would have minimal impact given that the prices are far in excess of the price floor.

Amending the rebate rate might initially involve a return to the operation of the scheme as it was before 2020 (i.e. removing the 60% marginal rate of compensation) followed by gradual reductions of the 30% marginal rate of compensation.

A further option would involve gradual reduction of the maximum repayment amount of 7.5 cents.

2.6 European Climate Action and Tax Related Proposals

As part of the European Green Deal, the EU has set itself a binding target of achieving climate neutrality by 2050. This means that current greenhouse gas emission levels need to reduce substantially in the coming decades. As part of its goal to reach climate neutrality, the EU has raised its 2030 climate ambition, committing to cutting emissions by at least 55% by 2030.

The EU is working on the revision of its climate, energy and transport-related legislation under the 'Fit for 55 package' in order to align current frameworks with 2030 and 2050 ambitions. Among the proposals published under the Fit for 55 package, three proposals which are significant in terms of national taxation and climate action are the revision of the Energy Taxation Directive, the Carbon Border Adjustment Mechanism and the reform of the EU ETS.

ENERGY TAX DIRECTIVE (ETD)

The ETD sets out excise duty rules covering all energy products used for heating and transport, as well as electricity. The ETD was first implemented in 2003 with the primary aim of ensuring harmonisation of the internal market and secondary aims of contributing towards environmental protection and EU competitiveness. The 2003 Directive sets out minimum levels of taxation applicable to energy products but also allows exemptions and reduced rates of taxation in specific areas.

In 2019 the European Commission undertook an evaluation of the 2003 Directive and concluded that the ETD was no longer positively contributing towards harmonisation as minimum rates were too low to be effective.

A proposal to revise the ETD to better align the Directive with EU climate action goals was published as part of the Fit for 55 Package in July 2021. The proposed revision of the Directive addresses the need to reflect the current energy market inclusive of new and emerging fuels and to foster uptake of cleaner fuels by taxing on the basis of the energy content and environmental performance rather than by volume. The main points of the revision are:

- Minimum rates based on energy content and environmental performance rather than volume
- Fossil fuel subsidies are to be phased out over a ten year period from 2023 - 2033
- The tax base will be broadened via the inclusion of new fuels such as biofuels and hydrogen

Council technical discussions on the proposal have been ongoing since September 2021.

The ETD crosses many policy areas including energy, environment, taxation, economy, trade, and agriculture. Issues including competitiveness, social protection and State Aid are contentious. Due to the complexity of the file, differing levels of climate action readiness and different energy dependencies across the Union, the negotiations are moving at a slow pace but making progress. The incoming Czech Presidency wishes to advance the pace of negotiations, in light of the current energy crisis.

CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

In its Communication on the European Green Deal, the Commission acknowledged that the EU must also look outside the Union in progressing climate action policy. Where a carbon pricing regime such as the EU ETS exists in one region, and not in another region, then there is a risk that goods and services can be produced in the other region at a cheaper price due to the absence of carbon pricing and can then be imported into the market with the ETS regime and have a competitive advantage- often referred to as 'carbon leakage'.

In order to address the risk of carbon leakage, the European Commission has proposed a CBAM. The CBAM regulation proposes putting a price on third country imports of certain high-polluting goods based on their embedded emissions. The CBAM regulation published in 2021 was proposed initially to apply to imports of cement, iron and steel, aluminum, fertilisers and electricity as these sectors have a high risk of carbon leakage and high carbon emissions.

The CBAM will be based on a system of certificates to cover the embedded emissions in imported products. The CBAM certificate price will be based on the EU ETS allowance price (currently over €80 per tonne). A transitional period will apply during the period 2023 until 2025 without financial adjustment to facilitate a smooth roll out of the mechanism and reduce the risk of disruptive impacts on trade. For CBAM sectors, free ETS allowances will gradually be phased out from 2026. To ensure compliance with WTO trade rules, the proportion of free allowances available to the ETS sector will be reflected in the CBAM certificate price.

Agreement was reached on a General Approach at the Ecofin Council of Finance Ministers in March 2022. In June 2022, the European Parliament adopted a position on the CBAM which involved a more ambitious approach, including the extension of the scope of the CBAM to additional products and to indirect emissions. The proposed extension of the scope will have significant trade impacts for Member States and their trading partners. The negotiation of the

file is currently ongoing. The file is also closely linked to the EU ETS reform and Social Climate Fund, both of which are also currently subject to ongoing negotiation.

REVISION OF THE EU ETS

As part of the Fit for 55 package, the Commission has proposed to revise the EU Emissions Trading System (ETS) which currently covers around 40% of the EUs total Greenhouse Gas (GHG) emissions (notably from the power sector and heavy industry).

The European Parliament adopted its position on the Commission's proposals for the revision of the ETS and the establishment of the Social Climate Fund (SCF) on 22 June 2022, and on the revision of the ETS for Aviation on 8 June 2022. On 29 June 2022, the Council of the EU agreed General Approaches on the revision of the ETS and ETS Aviation and the establishment of the SCF. These positions will form the basis for tripartite negotiations between the EU institutions (trilogues) with the aim of reaching an agreement on these legislative files.

Under the Commission's proposal the ETS would be extended to the maritime sector over the period 2023-2025. Greater efforts would also be required from aviation operators to reduce their emissions, through the phasing out of the free emissions allowances that this sector currently receives. The Commission's proposal for aviation is to phase out the free allowances completely by 2027.

While road transport and buildings are to remain under the scope of the Effort Sharing Regulation, the Commission has also proposed to apply emissions trading to both these sectors. This would be done in a separate system focused on upstream fuel suppliers, putting the responsibility on fuel producers to comply with the system, rather than requiring individual households or road transport users to take part directly. To address potential impacts of energy poverty and mobility poverty, the Commission has introduced a proposal for a new Social Climate Fund (SCF), to be financed by the EU budget using an amount equivalent to 25% of the expected revenues of emissions trading for building and road transport fuels.

The proposal to apply a separate trading system to road transport and buildings is of significant importance to Ireland and other Member States, given the impact on households and businesses. Given that carbon pricing already exists in these sectors in Ireland, via the national carbon tax, the proposed expansion of the ETS to these sectors could result in double taxation. It is Ireland's position that the Commission's proposal is less ambitious, in terms of emissions reductions, than the domestic carbon tax and would significantly reduce the

revenue available to Ireland to meet the costs of decarbonisation efforts across the economy. Ireland requested that this be recognised and that a derogation be made available for Member States where effective carbon pricing is already extant, if the national carbon tax is equivalent or higher than the auction price for allowances in the ETS for the buildings and road transport sector. This position has been reflected in the Council's general approach on the revision of the ETS.

2.7 Electricity Tax

2.7.1 BACKGROUND

Electricity Tax is an excise duty that is charged on supplies of electricity. The tax is charged on the final supply of electricity to the consumer and the liability arises at the time the electricity is supplied. There is a full relief from electricity tax for electricity used by households. The revised Energy Tax Directive proposes a gradual removal of this exemption, however it does provide for a continued ten year exemption until 2033 for households classed as vulnerable and a provision for reduced rates (not below the minima) thereafter.

The current minimum rates for electricity tax under the ETD are €1.00 per megawatt hour (MWh) for non-business usage and €0.50 for business usage. The revised ETD proposes equalising the minimum rates resulting in a reduction for the non-business rate and an increase in the business rate. Currently the rates in Ireland are €1.00 for both categories of usage. Aside from the relief for households, there is also relief from taxation for electricity generated:

- from renewable sources
- from environmentally friendly heat and power cogeneration
- on board a craft
- and relief from taxation for electricity used:
    - for chemical reduction or in electrolytic or metallurgical processes
    - for combined heat and power generation
    - for, or in connection with, the production of electricity.

The revised Directive seeks to promote the use of alternative and renewable energy sources, as such combined heat and power generation may continue to qualify for preferential treatment. Electricity produced on board a craft as well as electricity used in chemical, electrolytic and metallurgical processes can also continue to benefit from exemption under the revised Directive.

Electricity tax receipts contribute little to the Exchequer as can be seen from Table 7 below, the annual yields in the last six years have been consistently below €6 million. This is due to low rates of taxation applied and the wide range of reliefs available. As the share of electricity generated by renewables increases, so does the quantum of reliefs available, reducing the overall yield.

Table 7: Electricity Tax Annual Receipts

	2014 €m	2015 €m	2016 €m	2017 €m	2018 €m	2019 €m	**2020** €m	**2021** €m
Electricity Tax	5.5	4.5	4.6	3.6	2.5	2.3	2.1	5.5

FUTURE POLICY CONSIDERATIONS

Ireland is on a legally binding path to carbon neutrality by 2050 via the Climate Action and Low Carbon Development Amendment Act. The pathway to this target involves a gradual phasing out of fossil fuels from the economy and a greater reliance on electricity supplied as a renewable energy. In the long term, if no changes to tax policy occur, this will lead to a loss in Exchequer revenue. In light of current exemptions, reliefs and low rates, current revenue from electricity tax is very low. Therefore, if the shortfall in Exchequer revenue arising from the transition to carbon neutrality is to be met in some way through electricity tax revenue, a change to the current reliefs and rates may be needed. Tables 8 and 9 below set out options for rate changes as well as removal of reliefs and the estimated revenue arising.

Table 8: Estimated Additional Yield Arising from Electricity Rate Increases

	Estimated Additional Annual Yield
Increasing Rates to €2 per MWh	€4m
Increasing Rates to €5 per MWh	€16m
Increasing Rates to €10 per MWh	€36m

Table 9: Revenue Arising from Removing the Household exemption at Current and Increased Rates

	Estimated Additional Annual Yield
Current Rate	€3.25m
Increasing Rates to €2 per MWh	€6.5m
Increasing Rates to €5 per MWh	€16.25m
Increasing Rates to €10 per MWh	€32.5m

The Commission for Regulation of Utilities (CRU) estimates that the average annual household usage of electricity is 4,200 kWh (i.e. 4.2 MWhs)[13]. Based on this figure, the estimated impact on the average annual household bill of removing the household relief at current and increased rates is set out below in Table 11. There is currently a relief from electricity tax for electricity produced from renewable sources. The level of renewable supply is increasing but it can vary in light of conditions which may favour or hinder production such as wind levels. In 2020, over 42 per cent of electricity supplied in the State came from renewable sources[14]. Therefore Table 10 also shows the estimated consumer impact with relief for renewable supply.

Table 10: Estimated Impact of Removing Household Relief at Current and Increased Rates.

	Estimated VAT Incl. Impact (€)	Estimated VAT Incl. Impact (with 42% renewable relief) (€)
Current Rate	4.77	2.76
Increasing Rate to €2 per MWh	9.53	5.53
Increasing Rate to €5 per MWh	23.84	13.82
Increasing Rate to €10 per MWh	47.67	27.65

Figures are rounded to nearest cent and VAT is assumed to be 13.5 %

[13] Review of Typical Domestic Consumption Values for Electricity and Gas Customers https://www.cru.ie/wp-content/uploads/2017/07/CER17042-Review-of-Typical-Consumption-Figures-Decision-Paper-1.pdf
[14] https://www.seai.ie/data-and-insights/seai-statistics/key-statistics/renewables/

3. CARBON TAX

3.1 Background

The 2009 Commission on Taxation report called for phasing in fiscal measures to lower carbon emissions including the introduction of a carbon tax. The report recommended the introduction of a carbon tax to apply to fossil fuels, based on tonnes of carbon dioxide (CO2) emitted by each fuel and that it should help ensure that behavioural change aspects are maximised.

Carbon tax was introduced in Ireland in 2009 on a phased basis. Initially carbon tax applied to motor fuels was based on charging at a rate of €15 per tonne of CO2 emitted. It was extended to other liquid fuels and natural gas in 2010 and to solid fuels in 2013. The amount charged per tonne of CO_2 emissions was increased in 2012, 2020, 2021 and in 2022 to the current rate of €41 per tonne of carbon dioxide emitted. Carbon taxes are levied on suppliers of fossil fuels to Irish consumers, private individuals and businesses, and covers around 50% of all economy wide CO_2 emissions. The tax is not applied to other greenhouse gases like methane or nitrous oxide nor does it apply to the Emissions Trading System (ETS) sector, where greenhouse gas emissions are already subject to a European-wide carbon price. Since its introduction carbon tax has generated revenues of over €4 billion for the Exchequer. Annual yields by fuel type are shown in table 11 below.

Table 11: Annual Carbon Tax Yield by Fuel Type 2010 - 2021

Year	Auto Diesel (€m)	Petrol (€m)	Kerosene (€m)	Marked Gas Oil (€m)	Natural Gas (€m)	Solid Fuel (€m)	Other Fuels (€m)	Total Net Receipts (€m)
2010	98	65	17	27	11	-	4	222
2011	98	60	41	49	43	-	8	299
2012	131	75	40	55	45	-	9	355
2013	137	70	47	60	57	7	10	388
2014	145	66	42	54	52	17	9	385
2015	158	62	53	55	57	23	11	419
2016	171	59	53	56	56	24	11	430
2017	180	54	52	49	54	19	12	420
2018	183	48	59	54	50	25	12	431
2019	193	48	54	54	50	20	12	431
2020	213	46	68	65	65	24	13	494
2021	292	62	83	87	83	28	17	652

Figures are rounded to the nearest million

3.2 Application of Carbon Tax Rate on Fuels

As the Carbon Tax is applied on the basis of the carbon dioxide emission produced when a fuel is combusted, the charge per tonne of emission translates to higher charges on more carbon pollutant fuels and a lower charge on fuels which release lower levels of carbon dioxide when combusted. The impact of applying the current charge of €41 per tonne of CO_2 emitted on the most commonly used fuels is set out in the table below.

Table 12: Impact of Carbon Tax Rate for fuels based on charging an amount of €41 per tonne of carbon dioxide emitted (t/CO_2) (VAT exclusive)

Fuel	*Carbon Tax rate	Carbon Component Rate (also referred to as Carbon Tax Rate) (€)
Petrol	MOTCC-rate per 1,000L	94.87
Diesel	MOTCC-rate per 1,000L	109.74
Kerosene	MOTCC-rate per 1,000L	103.83
Marked Gas Oil	MOTCC-rate per 1,000L	111.14
Peat Briquettes	SFCT-rate per tonne	75.17
Coal	SFCT-rate per tonne	107.98
Natural Gas	NGCT-rate per megawatt hour (MWH) at gross calorific value (GCV)	7.41

*MOTCC – Mineral Oil Tax Carbon Component
SFCT – Solid Fuel Carbon Tax
NGCT-Natural Gas Carbon Tax

3.3 Carbon Tax Policy

Budget 2021 announced the introduction of a trajectory of annual carbon charge increases over the following 10 years leading to the amount to be charged per tonne of CO_2 emitted concluding at a charge of €100 per tonne by 2030. Finance Act 2020 set this trajectory on a legislative basis, sending a clear signal of the Government commitment to carbon pricing.

In line with the policy approach set out in the 2020 Programme for Government, all new revenue raised through carbon tax rate increases is hypothecated for expenditure which will:

- Ensure that the increases in the carbon tax are progressive through targeted social welfare and other initiatives to prevent fuel poverty and ensure a just transition;
- Fund a socially progressive national retrofitting programme targeting all homes but with a particular emphasis on the Midlands region and on social and low-income tenancies;
- Allocate funding to agricultural programmes to encourage and incentivise farmers to farm in a greener and more sustainable way.

3.4 Budget 2023 Fuel Price Impacts

Finance Act 2020 legislated for annual increases in the rate of carbon tax out to 2030. The increase in 2023 will be based on charging an additional €7.50 per tonne of CO_2 emissions, bringing the overall amount charged per tonne of carbon dioxide emitted to €48.50. The increase will apply from midnight on budget day 12th October 2022 for diesel and petrol and from 1st May 2023 for all other fuels to allow for the winter heating season. The impact of the tax on specific fuel bundles is set out in table 13.

Table 13: Current Carbon Taxes and 2022 Rate Increase Impacts for Fuel Bundles based on increasing the amount charged per tonne of carbon dioxide emitted by €7.50

Fuel Type	Typical Fuel Bundle	Carbon Tax rate	Carbon Tax at €41 t/CO_2 (incl VAT) (€)	Carbon Tax at €48.50 t/CO_2 (incl VAT)	Impact of carbon charge increase of €7.50 t/CO_2 (VAT incl)
Petrol	60 litre fill	MOTCC rate per 1,000L	7.00	8.28	1.28
Diesel	60 litre fill	MOTCC rate per 1,000L	8.10	9.58	1.48
Kerosene	900 litre tank	MOTCC rate per 1,000L	106.06	125.47	19.41
Peat	12.5kg bale	SFCT rate per tonne	1.07	1.26	0.19
Coal	40 kg bag	SFCT rate per tonne	4.90	5.80	0.90
Natural Gas	11,000 kWh	NGCT rate per MWh at GCV	92.51	109.49	16.98

- *VAT is applied at the standard rate of 23% for diesel and petrol and the reduced rate of 13.5% for heating fuels. A temporary reduction of VAT from 13.5% to 9% applies to supplies of natural gas used as a heating fuel between 1 May 2022 and 31 October 2022. This table does not take the VAT rate reduction into account.*
- *CRU estimates the average household usage at 11,000 kWh per annum*

The estimated additional yield from a €7.50 increase in the carbon charge is €118 million in 2023 and €151 million in 2024.

3.5 Mitigation measures

There are a number of support measures in place which help to mitigate the impact of the carbon tax for those vulnerable to fuel poverty. There are also relief schemes in place to support business sectors which are heavily reliant on fuel as a business input.

RESIDENTIAL ENERGY SUPPORT SCHEMES AND FUEL POVERTY PREVENTION

The Fuel Allowance and the Household Benefits Package are welfare payments specifically aimed at providing financial assistance for the cost of heating homes. The Fuel Allowance is a means-tested payment to help with the cost of home heating during the winter months. The Fuel Allowance payments begin in October of each year and end in April. Currently the rate of payment is €33.00 per week from October to April each year. In light of the increase in fuel prices in 2022, two additional lump sum payments were made to recipients in March and May 2022, amounting to an additional €225 in total. The Household Benefits Package is paid to people over 70 and to people under 70 in some circumstances. The package includes a monthly allowance of €35 to contribute towards the cost of gas or electricity bills.

In line with the Programme for Government commitment to ensure carbon tax increases are implemented in a progressive manner, ESRI research identified targeted social welfare measures which would achieve this aim. Arising from this, Budget 2021 implemented a number of welfare measures to offset the impact of the carbon tax increase for low income households. Following on from this, Budget 2022 announced the measures below which were found to counteract the impact of the tax for those vulnerable to fuel poverty:

- An increase to the Qualified Child Payment of €2 per week for children under 12 and €3 per week for children over 12. This protects low income families and will reduce child poverty;
- An increase in the Living Alone Allowance of €3 per week. People living alone are often the elderly most at risk of poverty or people suffering from a disability. These groups are likely to have higher energy needs than average.
- An increase to the Fuel Allowance of €5 per week. This compensates a broad range of lower income households (since the Fuel Allowance is means-tested) for the additional energy costs they are likely to incur due to an increase in the carbon tax.
- An increase in the income threshold for the Working Family Payment of €10 per week.

In addition to targeted welfare support measures, there are also a number of schemes in operation which assist in improving the energy efficiency of homes. As per the Programme for Government commitment, €5 billion in additional carbon tax revenue will be invested in energy efficiency over the course of this decade.

The Sustainable Energy Authority of Ireland's (SEAI) residential and community energy efficiency schemes are central to the Government's retrofit plan. Budget 2022 committed €202m in funding for these schemes in 2022. €89m of the additional funding raised from the increase in the carbon tax in 2022 is allocated towards residential and community schemes. This means that 100% of the residential energy efficiency measures is funded by the carbon tax in 2022.

In line with the Programme for Government commitment that retrofit plans will be socially progressive, €109m of the total allocation is being used to provide free energy efficiency upgrades to households in, or at risk of, energy poverty.

The Better Energy Homes Scheme was launched in 2009 and, from that date up to the 30 June 2022, has provided funding for energy efficiency improvements to approximately 269,000 homes at a cost of €300 million. In addition €27.9 million has been provided for solar photovoltaic installations in over 11,000 homes. The Sustainable Energy Authority of Ireland (SEAI) also operates the Better Energy Warmer Homes scheme which provides grants for the full costs of energy efficiency improvements in the homes of the elderly and those most vulnerable to fuel poverty. Over 144,000 households have received free energy efficiency upgrades to improve energy efficiency in their homes at a cost of over €315 million since 2000 under this scheme.

BUSINESS MITIGATION MEASURES

Some fuel users are able to avail of reduced rates of taxation, reliefs and exemptions. This undermines the underlying principal of the carbon tax, given that it should operate on a polluter pays principal. Examples of such measures are the Diesel Rebate Scheme, the reduced rate of taxation on Marked Gas Oil, the Diesel Excise Gap, the VAT refund scheme, income tax/corporation tax deductions for the MOT non-carbon component and the double income tax relief scheme for farmers.

The Diesel Excise Gap and the Diesel Rebate Scheme as detailed above are considered fossil fuel subsidies and while the carbon tax will continue to apply a higher carbon charge to diesel as a fuel, the fact that diesel already benefits from a lower rate of the MOT non carbon

component relative to petrol means that the impact of the carbon tax is lessened. Those who can avail of the DRS are further protected from the impact at higher retail price points.

Marked Gas Oil (MGO) is currently subject to a rate of overall MOT of 11.1 cent per litre. This compares favourably to the current full rate of MOT for auto diesel which is 40 cent per litre. Both fuels are currently benefitting from reduced rates in light of the temporary emergency reductions as detailed in Section 2.2. The rate of VAT applied to MGO is also lower than that applied to auto diesel; 13.5% compared to 23%. Given the much lower rate of taxation applied to MGO, fuel users who are entitled to use MGO as a fuel input already benefit from a much lower rate of overall excise compared to auto diesel and the impact of the carbon tax is reduced by this.

Farmers are also entitled to a double income tax relief under section 664A of the Taxes Consolidation Act 1997. (See Chapter4)

There is also a VAT refund scheme for business diesel expenditure. The effect of this is that businesses pay for their auto fuel at 81% (1/1.23) of the rate that private motorists do. As VAT is applied to the carbon tax, business are able to secure a refund on the VAT on any additional carbon tax.

These reliefs provide a level of targeted relief to important sectors of the economy. However, they act as fossil fuel subsidies, encouraging ongoing heavy consumption of pollutant fuels. Both national and international commitments look to a future that is less reliant on fossil fuels and phasing out fossil fuels subsidies such as those mentioned above will be necessary.

4. S. 664A TCA Double Deduction for Farmers on Marked Gas Oil

4.1 Background

Finance Act 2012 introduced section 664A of the Taxes Consolidation Act 1997 which provides for income tax relief for farmers in respect of increases in carbon tax on farm diesel. The measure was introduced having regard to a Programme for Government (2011-2015) commitment to "*exempt farm diesel from further increases in the carbon tax*".

Section 664A provides that a farmer may take an income tax or corporation tax deduction for farm diesel (including any carbon tax charged in respect of diesel) and then a further deduction for farm diesel which is equal to the difference between the carbon tax charged and the carbon tax that would have been charged had it been calculated at the rate of €41.30 per 1,000 litres of farm diesel (the 2012 baseline).

Finance Act 2012 provided for the "double deduction" procedure rather than an exemption for farm diesel as introducing an exemption for farmers from an increase in the carbon tax would have necessitated the introduction of an administratively difficult rebate system. At the time, the Minister for Finance stated that farmers would be allowed a double income tax deduction for increased costs arising from the change in the carbon tax. Essentially, the measure insulates farmers against the impact of increases in carbon tax on farm diesel that arise after 2012.

The question of extension of the double deduction to agricultural contractors is a matter that has been raised in recent years by contractors themselves[15] and more recently in the current year in the context of Oireachtas debates[16]. Agricultural contractors are not currently entitled to this relief as they are not carrying on a trade of farming as per the definition in section 654 of the Taxes Consolidation Act 1997 which requires the occupation of farm land and agricultural contracting does not involve the occupation of farm land. However, agricultural contractors who incur expenses in relation to farm diesel in the course of their trade of agricultural contracting may claim an income tax or corporation tax deduction for those expenses, including any carbon tax charged in respect of the diesel.

[15] The Association of Farm and Forestry Contractors in Ireland
[16] The matter was raised directly with the Minister for Finance during the Committee Stage of the Finance (Covid-19 and Miscellaneous Provisions) Bill 2022 on 6 April 2022. In addition, six Parliamentary Questions were asked in relation to the relief in 2022 and seven in 2021.

NUMBERS OF FARMERS/CONTRACTORS

Table 14: Farm types

Farm type	Total	Mean size hectare
All	135,037	33.4
Specialist tillage	4,567	63.6
Specialist dairying	15,319	65.1
Specialist beef production	74,159	26.9
Specialist sheep	17,435	28.9
Mixed grazing livestock	8,508	44.8
Mixed crops and livestock	1,759	64.9
Mixed field crops	11,516	16.2
Other	1,774	20.9

Census of Agriculture 2020

Some 31% of farmers are full-time while the remainder are classified as part-time, with dairy farms being those most likely to operate on a full-time basis.

According to the Association of Farm and Forestry Contractors in Ireland (FCI) there are some 1,000 contractors registered with them and that *"the average spend per Irish farm on Farm Contractor Services is €4,585 per annum. As there are 137,000 farmers in Ireland, the total annual spend on Farm Contracting Services by Irish farmers is €630 million."*

CSO statistics indicate the following values of farm contracting:

Table 15: CSO Value of Farm Contracting

	2019 €m	2020 €m	2021 €m
Contract work	444	431	464

It should be noted that FCI argue that these figures understate to size of the contracting sector.

CARBON TAX

The Programme for Government: Our Shared Future[17] committed to increasing the amount that is charged per tonne of carbon dioxide emissions from fuels to €100 by 2030.

Finance Act 2020 provided for a 10-year trajectory for carbon tax increases to reach €100 per tonne of carbon dioxide by 2030. This measure is a key pillar underpinning the Government's Climate Action Plan to halve emissions by 2030 and reach net zero no later than 2050. Carbon tax increases are scheduled to apply to petrol and diesel on Budget night and on all other mineral oils on 1 May each year to 2030.

MARKED GAS OIL (MGO) MINERAL OIL TAX (DUTY)

Mineral Oil tax (MOT) is comprised of a carbon component and a non-carbon component. The carbon component is commonly referred to as carbon tax and the non-carbon component is often referred to as "excise", "fuel excise" or "fuel duty".

Diesel used for certain purposes, for example in agricultural machinery, may qualify for a reduced rate of MOT. Such diesel must be marked with prescribed fiscal markers and is referred to as Marked Gas Oil (MGO), green diesel or farm/agricultural diesel.

Marked Gas Oil (MGO) is currently subject to a rate of overall fuel excise of €111.14/1000l. This compares favourably to the current full rate of fuel excise for auto diesel which is €405.38 per 1000l.

As such, those sectors which are entitled to use MGO as a fuel input already benefit from a much lower rate of overall excise compared to auto diesel and the impact of the carbon tax is reduced by this.

In March and May this year, in response to the global fuel crisis, cuts to MOT rates on petrol, diesel and MGO were introduced. This rate cut is applied to the non-carbon component of MOT to fully compensate for a scheduled increase in the carbon component. The rate of MOT on MGO is almost 30% lower from 1 May than the rate that would have applied but for the relevant cuts. All MGO users will benefit from a cut of more than 5 cents per litre inclusive of VAT from 1 May until 11 October.

[17] https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/

The table below provides the current MOT rate, broken into its carbon and non-carbon components, along with the pre-cut rate and the rate to apply when the temporary reduction period ends.

Table 16: MOT Changes

	MOT non-carbon	MOT carbon	Total MOT
Pre-cut rate	€47.36	€90.81	€138.17
10-Mar-22	€29.74	€90.81	€120.55
01-May-22	€0.00	€111.14	€111.14
12-Oct-22	€47.36	€111.14	€158.50

VAT

There is also a VAT refund scheme for business diesel expenditure. The effect of this is that businesses pay for their auto fuel at 81% (1/1.23) of the rate that private motorists do. As VAT is applied to the carbon tax, business are able to secure a refund on the VAT on any additional carbon tax.

VAT-registered businesses are entitled to recover the cost of VAT on the purchase of diesel used in the course of their business, as is the case with most business costs. However, the VAT Consolidation Act provides that VAT on petrol is not recoverable, including by businesses registered for VAT, except where the petrol is purchased as stock-in-trade of the business.

4.2 Evaluation

It is important to note that the primary focus of this review is to examine the question of the continuation of the double deduction for farm diesel into the medium to long-term. While this review is mindful of current inflationary pressures, it is considered that the longer-term rationale for the measure should not be tied to current challenges arising from higher fuel costs.

WHAT IS THE OBJECTIVE OF THE TAX EXPENDITURE?

Section 664A was introduced as a specific support in the Programme for Government in 2011 to those carrying on the trade of farming in the face of the introduction of carbon tax. In particular, the measure was intended to address problems faced by family farms.

WHAT IS THE MARKET FAILURE BEING ADDRESSED?

The purpose of the measure in 2012 was as a support to the farming sector in accordance with a Programme for Government commitment arising from the introduction of carbon tax.

The market failure in relation to section 664A concerns the issue of rising input costs (for materials, feed, fuel and energy). This dynamic when coupled with market forces at point of sale may make the enterprise of farming less financially viable. In such circumstances, tax reliefs such as section 664A, alongside other direct expenditure supports, may serve to reduce adverse impacts on farmers. Very significant increases in fuel and energy costs thus far in 2022 and the possibility of further such increases may serve to intensify financial pressures on farmers.

Essentially, section 664A insulates farmers (and only farmers as defined in the legislation) from any carbon tax increases above the rate of tax that applied in 2012 (€41.30 per 1,000 litres). On top of the normal deduction which farmers get in respect of their Input costs (including fuel), they also get a second deduction in respect of any increases in the carbon tax which are in excess of the €41.30 per 1,000 litres. In practical terms, they pay the tax but can claim anything above 4c per litre back as a deduction at their marginal rate.

FCI have requested that they be brought within the ambit of section 664A on the grounds of parity of treatment with farmers and having regard to rising fuel costs. Their arguments include that:

- contractors provide a lower emission and more efficient approach to farm work; and
- contracting means a lower cost to the Exchequer in that the capital allowances for farm machinery are more efficient in the hands of contractors using that machinery full-time than in the hands of farmers using machinery less intensively.

FCI also argues that their competiveness as service providers is eroded by those measures.

IS A TAX EXPENDITURE THE BEST APPROACH TO ADDRESS THE MARKET FAILURE?

Although significant, diesel fuel is only one component of farmers' input costs. Measures to mitigate the impact of those costs may take a number of forms across both the Government's spending and taxation systems. In addition, where cost moderation is the goal, the aim should be to select a policy approach which is as consistent as possible with other priority policy goals of Government. In this regard, the double deduction for farm diesel may be seen as not aligned with the achievement of wider climate policy targets.

WHAT ECONOMIC IMPACT IS THE TAX EXPENDITURE LIKELY TO HAVE?

Revenue advises that the tax deductibility in respect of the carbon tax component of farm diesel is not separately identified on tax returns and so the cost of the measure is not readily identifiable. However, it is estimated very roughly that the annual cost of the current concession for farmers could cost the Exchequer of the order of €12 million per annum at current rates of carbon tax (an extension to farm contractors might potentially add a further €24 million annually to the cost).

4.3 Conclusion

A key issue to be considered is whether farmers should continue to benefit from the double deduction in circumstances where essentially all other sectors are required to share the costs of increases in carbon tax. While the points made about the absence of viable alternatives to the internal combustion engine are valid and fully noted, other sectors such as such as commercial transport or construction are in a similar situation and are not in a position to avail of the section 664A concession. On the grounds of equity, the case for a continuation of section 664A for farmers is not a strong one. In a more benign set of circumstances for farm enterprises, a clear recommendation to remove section 664A, perhaps on a phased basis over a number of years, might be appropriate. The fact that the normal business deduction in respect of input costs would remain in place as well as the VAT refund scheme for business diesel expenditure should also be kept in mind.

However, the war in Ukraine has caused fuel prices to increase and has raised concerns domestically about food security and the supply of fodder. The Minister for Agriculture, Food and the Marine has tasked a National Fodder and Food Security Committee to prepare an industry response to the emerging crisis in feed, fodder, fertiliser and other inputs, and to develop contingency plans and advice to assist farmers in managing their farm enterprises.

Against this background, the 2022/2023 autumn-winter period would not seem to be the appropriate time to make a change. It may be preferable to consider signalling a policy change in the current year but to defer action until a later date.

At the same time, a move to extend the scope of section 664A beyond the current cohort of beneficiaries might be seen to undermine the desired objective of putting in place a policy approach which is more aligned across different goals. If it is considered that farm contractors require support, this might best be addressed in the context of a longer-term policy for agriculture.

The members of the TSG may wish to consider.

5. Motor Vehicle Taxes

5.1 Overview

BACKGROUND

Road transport and motor vehicles are subject to various forms of taxation in Ireland. These taxes are designed around both revenue-raising and encouraging behavioural change in support of Government policy for reducing emissions. The main levers in vehicle taxes are point-of-purchase taxes such as Vehicle Registration Tax, and usage taxes, such as the annual motor tax and vehicle benefit-in-kind. Though these taxes apply across a broad range of vehicles, they are principally paid by owners of private passenger cars. This reflects a policy objective of prioritising taxation where there is greater scope for behavioural change for emissions reductions, over increasing the costs associated with the movement of goods and services in the economy.

Ireland has among the highest transport emissions per capita in the EU-27. The country has historically experienced low-density and sprawl patterns of spatial development and an infrastructure investment priority on road development and mobility dominated by private cars. These factors are associated with higher levels of greenhouse gas emissions (GHGs) and increased road congestion. EPA data shows that transport is Ireland's second largest emitter behind agriculture. As the private car remains the dominant mode of transport in the state (accounting for 73.7% in 2020)[18], motor vehicle taxes are principally paid by their owners through VRT and motor tax. Overall trends in recent years have shown that Irish passenger vehicles are travelling more kilometres annually and the national fleet continues to grow.

Ireland is committed to mitigating climate change. The 2021 Climate Action Plan and an ambitious Programme for Government commits the government to suite of actions which target a radical reduction in emissions. The transport sector has been identified as having scope for significant emissions reductions, and motor vehicle taxation will be central to achieving this. Recent Budgets and Finance Bill changes brought in significant reforms to vehicle taxation, in line with the principle of 'polluter pays'.

[18] DDTAS – *Transport Trends 2020: An Overview of Ireland's Transport Sector*

GOVERNMENT POLICY

The Programme for Government outlines a commitment to an average 7% per annum reduction in overall greenhouse gas emissions from 2021 to 2030 (a 51% reduction over the decade) and to achieving net zero emissions by 2050. A commitment to these targets was enshrined in the Climate Action and Low Carbon Development (Amendment) Act 2021. The 2021 Climate Action Plan followed the enactment of this legislation, and sets out a framework of actions for achieving these targets, committing Ireland to a radical reduction in its transport emissions. The need to make significant emissions reductions in the transport sector is fundamental to Ireland's policy around vehicle taxation; the systems are designed to facilitate the uptake of EVs and to address the increasingly harmful environmental and public health effects of vehicle emissions.

EPA projections from 2019 forecast that emissions from transport-related activities will reach an estimated 11.3m tonnes of CO2 equivalent by 2030 in a With Existing Measures (WEM) scenario. If, however, the emissions reduction target outlined in the Programme for Government of an average of 7% emissions per year 2021-2030 was achieved, then emissions would fall to 6.2m tonnes. Indeed the 2021 Climate Action Plan sets 6-7m tonnes as the required emissions by 2030.

Though a lot of progress is still required to achieve these targets, Government action in recent years is beginning to have a positive impact. Significant policy changes in vehicle taxation in 2020 and 2021 have coincided with the Covid-19; making them unusual years for the car market. Therefore the varying impacts of global supply change issues, public health restrictions, Brexit and inflation must be borne in mind in any analysis of the car market and vehicular emissions. Notwithstanding this, the statistics show clear trending towards the uptake of cleaner vehicles following policy changes. The average emissions figure for newly registering cars in 2020 was 135.6 gCO2/km (VRT band 14). This fell to 122.6 g/km (band 11) for 2021. Evidence from the year to date suggests the average is approx. 113.2 g/km (band 9).

5.2 Vehicle Registration Tax (VRT)

OVERVIEW

VRT is a tax chargeable on the registration of vehicles in the State and is levied as a percentage of the open market selling price (OMSP) of the vehicle. Since 1 July 2008, both VRT and Motor Tax on private motor cars have been calculated on the basis of CO2 emissions, so that cars with higher CO2 emissions attracted a higher tax liability.

VRT is a highly pro-cyclical tax based on a one-off transaction on a commodity whose sales volume tends to track the economic cycle. The vast majority of VRT receipts are raised from the registration of private passenger cars, with light commercial vehicles - charged at a fixed rate of 13.3% of the OMSP - contributing a lesser amount to receipts.

RECENT RATES CHANGES

From 1 January 2021 a new VRT table was introduced that;

(a) Uses the CO2 values from the new, more accurate EU emissions test for passenger cars, the Worldwide Harmonized Light Vehicles Test Procedure (WLTP); and
(b) Strengthened the environmental rationale of the VRT regime in line with Government commitments as set out in the Programme for Government and Climate Action Plan

The rates were changed in Budget 2022 to further incentivise motorists in the market for a new car to make ‘greener choices’. The new rates table increases VRT rates progressively from band 9 so that high emission vehicles pay more.

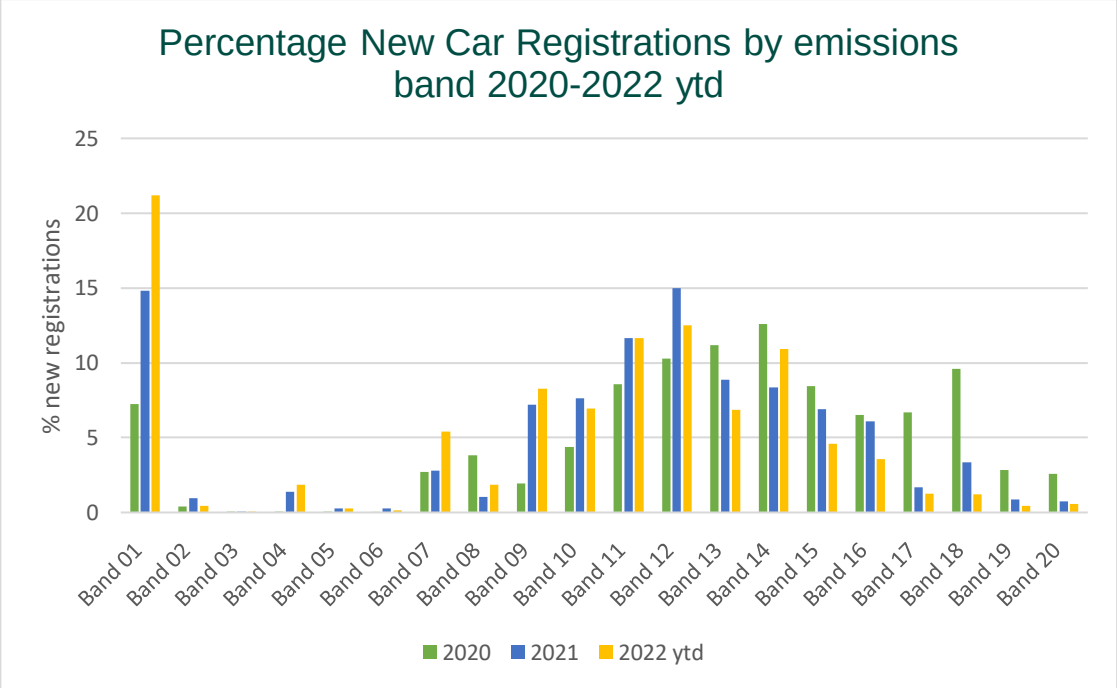
Table 17: New VRT Rates Table

Emissions Band	CO_2 (WLTP) g/km		OMSP X
	FROM	**TO**	**Rate**
1	0	50	7.00%
2	51	80	9.00%
3	81	85	9.75%
4	86	90	10.50%
5	91	95	11.25%
6	96	100	12.00%
7	101	105	12.75%
8	106	110	13.50%
9	111	115	15.25%
10	116	120	16.00%
11	121	125	16.75%
12	126	130	17.50%
13	131	135	19.25%
14	136	140	20.00%
15	141	145	21.50%
16	146	150	25.00%
17	151	155	27.50%
18	156	170	30.00%
19	171	190	35.00%
20	191	-	41.00%

The restructuring of the VRT system has already impacted on the profile of vehicles registering in the State. Using Revenue data on first time registrations for new cars from 2020 to end May in 2022, the changing emissions landscape is evident across emissions bands. The following graph in Figure 5 below sets out the percentage of new cars in each emission band across these years, illustrating the overall 'greening' profile of new cars entering the fleet. Most notable is the significant growth in Band 1 (which effectively represents Battery Electric Vehicles (BEVs) and the best-performing hybrids) and a drop off in registrations in the five highest bands, 16-20, (which represents the most pollutant vehicles). Put very simply, registrations of low emission vehicles are growing while the market for high emission vehicles

is receding. The middle bands, where most of the volume remains, is also experiencing a prominent shift downwards, reflecting an overall picture of a reducing emissions profile.

Figure 5: Percentage New Car Registrations by emissions band 2020-2022 ytd



RELIEFS FOR EVS

The 2021 Climate Action Plan prioritises the electrification of the passenger car fleet due to it being the action with the greatest scope for emissions reductions by 2030. It sets an ambitious target of 945,000 EVs in the fleet by 2030 (845,000 of which will be passenger cars). Fiscal incentivises for BEVs are playing a role in delivering on these targets.

The main point-of-purchase tax incentive for BEVs remains the €5,000 VRT relief. A tapering mechanism on reliefs for BEVs and electric vans was introduced in Finance Act 2020. The relief begins to taper off at an OMSP of €40,000, ending at €50,000; this allows for a fairer VRT system in-keeping with the polluter pays policy that also ensures that the relief is focused on the more affordable price end of the market. Revenue statistics from 2021 show that the majority of BEVs registered had an OMSP of less than €50,000, meaning 77% were able to avail of the relief.

The €5,000 VRT reliefs for electric cars and vans were due to end at end 2021, but were extended in Budget 2022 to 31 December 2023.

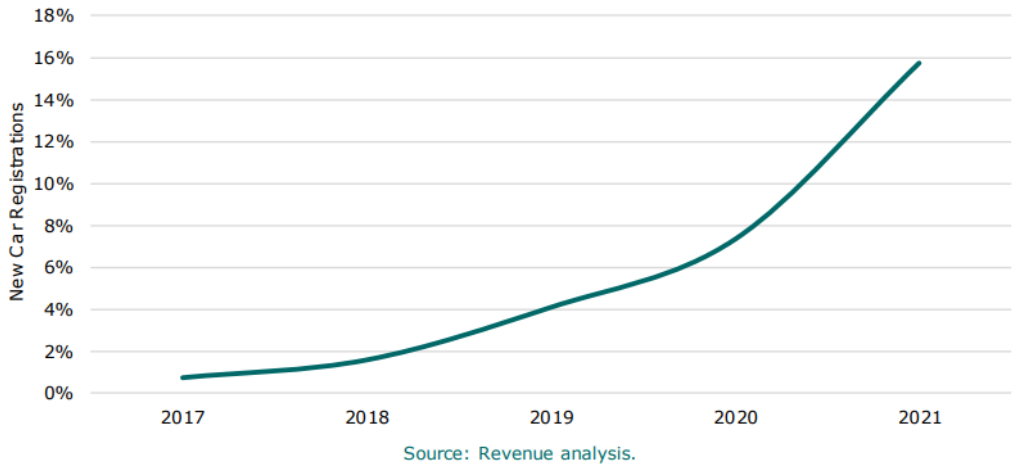
Table 18: Illustration of effect of tapering BEV €5,000 VRT relief

BEV VRT Regime with lowest rate of 7% and tapered VRT relief mechanism					
OMSP €	30,000	40,000	45,000	75,000	100.000
Rate	7%	7%	7%	7%	7%
Gross VRT Charge (€)	2,100	2,800	3,150	5,250	7,000
Less: VRT Relief (€)	5,000	5,000	2,500	0	0
Net VRT Charge €	**0**	**0**	**650**	**5,250**	**7,000**
Effective VRT Rate	0.00%	0.00%	1.44%	7.00%	7.00%

While significant progress has been made on EV uptake in recent years, full BEVs still only comprise less than a percent of the total national car fleet.

Trends in electric and hybrid cars entering the national car fleet have been slow in the past, but are currently moving more rapidly, as illustrated in the graph below in Figure 6. BEVs and hybrids have grown from less than 2% of registrations as recently as 2018, to 16% in 2021. Revenue data[19] shows that, despite overall registrations falling in recent years, registrations of BEVs (including vans and motorcycles) hit almost 10,000 in 2021.

Figure 6: New hybrid and EV share of registrations



Source: Revenue analysis.

[19] https://www.revenue.ie/en/corporate/documents/research/vrt-report-2021.pdf

It is evident that the tax system currently offers significant support for the uptake of electric vehicles. A paper[20] by the Parliamentary Budget Office notes than Ireland is broadly in line with European countries in terms of EV supports. However, it indicates that it is difficult to comprehensively evaluate supports as different countries have different approaches, from total tax exemptions and interest free loans, to low emission zones etc. The paper estimates that BEVs qualify for total Exchequer support of approximately €11,300.

VRT NOX SURCHARGE

In recognition of the environmental health costs caused by pollutants emitted in particularly high quantities by diesel vehicles, Budget 2019 saw an introduction of a 1% surcharge on all diesel vehicles. Budget 2020 replaced the 1% surcharge with a surcharge tied to nitrogen oxide (NOx) emissions levels based on the "polluter-pays" principle, where the greater the level of NO_x a car emits, the higher the surcharge. Budget 2021 saw an adjustment to the surcharge structure so as to underpin its environmental rationale and incentivise the uptake of cleaner cars.

Table 19: VRT NOx Surcharge

Thresholds (NOx mg/km)	Rate per mg/km
0-40	€5.00
41-80	€15.00
81+	€25.00

The surcharge is structured to levy a modest charge on the newest vehicles complying with the latest vehicle standards. Most new petrol and well performing diesel cars will have typically have lower NOx emissions and therefore are subject to a more modest NOx charge. Levels of NO_x emissions tend to be higher among older cars, particularly diesel, which were not subject to more stringent Euro manufacturing standards. This is evident in the latest data for 2021, where the average NOx charge for a new diesel car was €202, while the average for a used diesel car was €481.

[20] An Overview of Ireland's Electric Vehicle Incentives and a Comparison With International Peers – Publication 12 of 2022 (oireachtas.ie)

The introduction of the NO_x surcharge is designed to correct an imbalance in VRT where the focus was purely on CO_2 emissions. The environmental and public health impacts of other pollutants such as NO_x are now recognised in the tax code and duly charged. The surcharge has a positive impact on incentivising cars which are less harmful to our environment and in reversing recent trends in the proliferation of used diesels imported from the UK.

Data from Revenue and the Society of the Irish Motor Industry (SIMI) seems to suggest a move towards cleaner, newer cars since the introduction of the NOx surcharge. It must be noted, however, that the impacts on the motor industry of COVID, wider supply chain issues, and Brexit are difficult to gauge; any analysis must factor this in. Since 2019 the overall share of diesel cars in the Irish market has been decreasing; from 58.53% in 2019, to 52.35% in 2020, to 39.76% for 2021. Used imports have also been decreasing year-on-year, down 57.1% in the first quarter of 2022 compared with the same period in 2019, before the NOx surcharge commenced. Used diesels aged 6 to 9 years are down 72.7%.

5.3 Motor Tax

Motor tax is an annual charge on motor vehicles registered in the State. Though it applies to HGVs, LCVs, motorcycles, tractors, campervans, etc., by far the largest volume of motor vehicles registered in the State are private passenger cars, at some 2.23million (77%) of the national car fleet as of 31 December 2021.

The motor tax system was also reformed in Budget 2021, in line with Government commitments to reduce emissions from road transport and in the context of transitioning to the new Worldwide Light Test procedure (WTLP) emissions testing regime. In order to do this the existing New European Driving Cycle (NEDC) motor tax table was adjusted to reflect climate action priorities and to ensure a level playing field with the introduction of the new WTLP table.

As per the table below, the WLTP and NEDC equivalents are aligned. Cars first registered in the State up to end 2020 (or cars registered from January 2021 which only have a NEDC figure) are included in the left side of the motor tax table below. A third table was introduced in Budget 2021 that covers WLTP cars registered from 1 January 2021 (right side of the table below). Pre-2008 cars remain taxed according to engine size. There were no rate changes in Budget 2022.

Table 20: Motor Tax Rates

Cars registered from July 2008 to end 2020 NEDC Value			Cars registered from January 2021 WLTP value		
CO2g/km			**CO2g/km**		
From	To	Rate	From	To	Rate
0	0	120	0	0	120
1	80	170	1	50	140
81	100	180	51	80	150
101	110	190	81	90	160
111	120	200	91	100	170
121	130	270	101	110	180
131	140	280	111	120	190
141	155	400	121	130	200
156	170	600	131	140	210
171	190	790	141	150	270
191	225	1250	151	160	280
>225		2400	161	170	420
			171	190	600
			191	200	790
			201	225	1250
			>225		2400

5.4 Benefit-In-Kind (BIK) and Company Cars

Taxation relating to company cars has a role to play in helping to curb CO2 emissions. Company cars tend to travel higher volumes than the average passenger vehicle. Furthermore, the company car fleet can be an important feeder into the domestic second hand car market. This sets the context for the recent reform to vehicle BIK.

Table 21: Current BIK rates structure:

Kilometers Driven	(% of OMV)
24,000 and below	30%
24,001 to 32,000	24%
32,001 to 40,000	18%
40,001 to 48,000	12%
48,001 and over	6%

Policy has been focused on strengthening the environmental rationale behind company car taxation. Until the Finance Act 2019 Ireland's vehicle BIK regime was unusual in two respects: there was no overall CO2 rationale in the regime, despite a CO2 based vehicle BIK regime being legislated for as far back as 2008 (but never having been commenced); and the existence of 'mileage bands', whereby the greater the number of business kilometers travelled in a year, the lower the applicable BIK rate. The 2019 Finance Act legislated for a fundamental overhaul of the regime which brought in discounts and surcharges based on a car's emissions profile, and is due to commence from 1 January 2023.

Table 22: New rates structure from 1 January 2023:

Business Mileage		Vehicle Categories				
Lower limit	Upper limit	A	B	C	D	E
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Kilometres	Kilometres	Per cent	Per cent	Per cent	Per cent	Per cent
-	26,000	22.5	26.25	30	33.75	37.5
26,001	39,000	18	21	24	27	30
39,001	52,000	13.5	15.75	18	20.25	22.5
52,001	-	9	10.5	12	13.5	15

Vehicle Category (1)	CO_2 Emissions (CO_2g/km) (2)
A	0g/km up to and including 59g/km
B	More than 59g/km up to and including 99g/km
C	More than 99g/km up to and including 139g/km
D	More than 139g/km up to and including 170g/km
E	More than 179g/km

From 1 January 2023 the amount taxable as BIK remains determined by the car's original market value (OMV) and the annual business kilometres driven, while new CO2 emissions-based bands will determine whether a standard, discounted, or surcharged rate is taxable.

Some have argued against the mileage bands in the BIK structure as they can be perceived as incentivising higher mileage to avail of lower rates, leading to higher levels of emissions. The logic behind the retention of mileage bands is that the greater the business mileage, the more the car is a benefit to the company rather than its employee (on average); and the more the car depreciates in value, the less of a benefit it is to the employee (in years 2 and 3) as the asset from which the benefit is derived is depreciating faster. Mileage bands also ensure that cars more integral to the conduct of business receive preferential tax treatment.

The reduction in mileage bands from five to four serves to weaken any perverse incentives of increasing mileage to reduce tax liability, while still seeking to tax the person in proportion to the quantum of benefit derived from the car. Electric vehicles will benefit from a preferential rate of BIK, ranging from 9 – 22.5% depending on mileage. This new structure with CO2-based discounts and surcharges provides a broad structure which will incentivise employers to provide employees with low-emission cars. This will bring the taxation system around company cars into step with other CO2-based motor taxes as well as the long-established CO2-based vehicle BIK regimes in other member states.

In addition to the favourable treatment for low emission vehicles in this new structure, there is currently also a BIK exemption for BEVs with an OMV up to €50,000. This ensures BEVs with an OMV of less than €50,000 have no BIK liability, while those with a higher OMV can reduce the taxable amount by €50,000. In Budget 2022, this preferential BIK treatment for electric vehicles was extended to end 2025, with a tapering mechanism on the vehicle value threshold. The current BIK exemption will continue to apply to 31 December 2022 as currently provided for in the legislation. From 2023, the original market value (OMV) reduction for BIK purposes is progressively phased out until end 2025. This extension is in support of Government policy to incentivise the transition to electric vehicles, while the lead in time allows for fleet planning. The relief serves to reduce the OMV of the vehicle, for the purposes of determining the taxable cash equivalent, by €35,000 in 2023, €20,000 in 2024 and €10,000 in 2025. Any surplus OMV will be subject to BIK in accordance with the standard rates due to commence on 1 January 2023, which incorporates the vehicle's emissions and mileage. A flat rate of 8% will apply for vans.

The €50,000 BIK exemption was intended as a temporary measure and forms part of a broader series of generous measures, including a reduced rate of 7% VRT, a VRT relief of up to €5,000, low motor tax of €120 per annum, SEAI grants, discounted tolls fees, and 0% BIK on electric charging.

The relief is extended in support of Government policy to incentivise EV uptake, while the tapering mechanism represents a value for money consideration and serves to indicate the removing of the relief altogether in 2025.

5.5 Future Vehicle Taxes

The 2021 TSG Paper[21] on vehicle taxation set out some options for how vehicles and road usage might be taxed in the medium term.

It is clear the current model for vehicle and transport taxes relies heavily on private car ownership and fossil fuel usage. The future of transport in this country envisages a shift away from this. The scale of the proposed 'electrification' of the national car fleet will entail significant Exchequer revenue risk. The State relies on the purchase/acquisition and fuel usage of internal combustion engine (ICE) vehicles to raise substantial revenues every year. The 2019 Department of Public Expenditure and Reform spending review paper on EVs estimated that if the Climate Action Plan 2030 EV target is achieved, the Exchequer will lose approximately €1.5 billion worth of revenue annually from motor tax, VAT, fuel excise. While medium term options will encompass newer approaches such as road user charging, in the short term decisions will have to be made on how the State maintains or adapts revenue streams. The financial sustainability of supports for EVs will have to be considered as fleet numbers increases. Indeed in this regard, the Energy Tax Directive revision proposes a structure for taxing electricity and hydrogen used in vehicular transport to replace current fossil fuel tax streams.

[21] https://assets.gov.ie/198270/61142180-955c-458e-a7fb-695768ddd8e4.pdf

5.6 Budget Options

VRT

Much work has been done in this general area in recent years. Representatives for the motor industry have called for time to allow the current VRT system to bed in. In this regard, the Society of the Irish Motor Industry (SIMI) have called for no further increases in vehicle taxation in the current economic climate. They have cautioned against increasing costs for business and motorists, arguing that this will create stability and certainty for both the industry and for motorists. In addition, they say that this will encourage car buyers to trade-up to a new car which will reduce emissions and speed up the process of electrification. In particular, the industry have cautioned against the introduction of emissions-based taxes for commercial vehicles.

The Department of Transport have previously suggested funding the retention / expansion of BEV supports using increased VRT rates on combustion engine vehicles (ICEVS). However, this already has happened to a large degree as VRT rates have been increased quite significantly in the higher bands and data indicates that as a result, the volume of registrations has fallen dramatically in the highest emissions bands. This shows that the policy is working, which consequently leaves very limited scope for revenue raising by increasing rates on the highest emitting vehicles. Revenue could be raised by taxing BEVs more, though this would have to be considered in the context of the Government's targets for increasing BEV registrations. Modest increases from the middle emissions bands i.e. 1% increase from band 11, could support policy to progressively increase taxes on ICEVs.

EMISSIONS-BASED OPTIONS FOR COMMERCIAL VEHICLES

Category B commercial vehicles are subject to a flat VRT rate of 13.3% of the Open Market Selling Price (OMSP). The 2021 Climate Action Plan calls for the consideration of options to provide an emissions-based rationale for the tax. The Budget 2022 vehicle taxation TSG paper set out the below two options for banded emission-based systems.

Table 23 and 24: Options for emissions-based VRT charging for commercial vehicles

Option 1 – Discount and surcharge rate

	CO2 (WLTP) g/km		OMSP x
BAND	FROM	TO	Rate
1	0	100	11.00%
2	101	140	13.30%
3	141+		16.00%

Option 2 - Discounting only

	CO2 (WLTP) g/km		OMSP x
BAND	FROM	TO	Rate
1	0	50	7.00%
2	51	80	9.00%
3	81	85	9.75%
4	86	90	10.50%
5	91	95	11.25%
6	96	100	12.00%
7	101	105	12.75%
8	106+		13.30%

A closer examination of revenue data presents issues for both these options. Regarding option 1, the data indicates that close to 90% of commercial vehicles have emissions over 140 g/km, therefore undermining the rationale for the provision of incentives and dis-incentives. Similarly, regarding option 2, 3% of vehicles would be able to avail of the discounted rates. These options both create a rates table that determines a vehicle's VRT based on CO2-emissions, however it is clear that there remains limited scope for behavioural change here due to the lack of low-emissions alternatives. Indeed the majority of commercial vehicles which could avail of the discounted rates in these options are likely to be electric vans, which already have an incentive in the €5,000 VRT relief.

Future options could examine different emissions thresholds, possibly setting 160 or 180 g/km as the upper threshold for increased rates, while striking a balance between providing an emissions-based incentive, and not disproportionately adding to the costs of commercial activity. A considerable amount of technical work would be required to develop an appropriate level-playing field option for used import commercial vehicles, which were subject to the old NEDC emissions text.

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