TSG 12/22

Vehicle Registration Tax (VRT)

1. Introduction

1.1 Exchequer yield from VRT fell from €1.4bn in 2007 to €375m in 2009. Receipts for 2010 and 2011 improved somewhat to €384m and €387m, largely due to the introduction of the scrappage scheme which ran from Jan 2010 to June 2011. Figures to end September 2012 show VRT receipts are €343m.

	VRT Receipts	**New registrations**
2008	€1.1bn	146,637
2009	€375m	54,055
2010	€384m	85,264
2011	€387m	87,086
2012 (end September)	€343m	73,607

1.2 This decline in receipts is due to a fall in new car sales, increased competition on car prices and consumer moves towards buying cheaper and cleaner cars, where the VRT rates are lower (almost 96% of new cars purchased in 2011 were in the first 3 CO_2 emission bands). In view of this, and a similar decline in Motor Tax receipts, the Minister announced in Budget 2012 a public consultation on the system of VRT and Motor Tax to adjust CO2 bands and rates in line with technological advances in motor vehicles while maintaining a positive environmental incentive to reduce transport emissions. **Annex A** shows the breakdown by CO2 emission bands of new cars purchased since 2007.

In this context, EU targets for CO2 emissions / fuel efficiency of new cars are targeted at 130 grams per kilometre by 2015 with an outline target of 95 g/km for 2020. It is more likely that this will result in further improvements in engines and other efficiency measures to conventional vehicles given the pace of development in hybrid or electric vehicles.

The following Table sets out the current VRT system.

CO_2 Emissions Bands	**g CO_2/km**	**VRT Rates**	**Distribution by CO_2 Band of new cars in 2012**
A	0 - 120g	**14%**	54.44%
B	121 - 140g	**16%**	38.28%
C	141 - 155g	**20%**	3.81%
D	156 - 170g	**24%**	1.8%
E	171 - 190 g	**28%**	1%

F	191 - 225g	**32%**	0.6%
G	226g and over	**36%**	0.03%

2. VRT Proposals - Restructuring of VRT Bands

2.1 Consultation process:
Representatives of the Department of Finance, the Revenue Commissioners and the Department of the Environment reviewed some 34 submissions received and conducted a number of follow up meetings to investigate further some of the proposals received.

Following the public consultation process a number of options were reviewed.

Option 1: -
This is the SIMI proposal for a new 18 band structure with a small differential between bands, with Band A set at zero. The proposal involves the rates being adjusted on the bands over 8 undefined periods (presumably a minimum of 1 year). The proposal would involve no increase in VRT in year 1.

The pros and cons of this option are as set out below:-

Pros

- It allows for cars to move into different bands as technology improves emissions from each vehicle;
- Greater amount of narrower bands may result in less situations where small engine cars and large engine cars are in the same band, a perceived inequity with the current system;
- Retains CO2-based approach of pure CO2 emissions-based system.

Cons:

- This is a large increase on the number of bands currently being used – greater administration required;
- the proposal includes an increase in number of bands over 140g from 5 to 8, in which less than 10% of cars are sold
- the estimated additional yield shown would accrue at the end of SIMI's proposed adjustment period rather than immediately; the timing of the adjustment would depend on how quickly those technological advances are made;
- No fixed timeframe for this yield to be achieved;
- No immediate increased yield without a change in rates.

Option 2
This option involves the expansion of Bands A and B (which currently account for some 93% of new car sales) from 2 to 6 bands (four A and two B) and increase rates across the board.

The pros and cons of this option are as set out below:-

Pros:

- Relatively minor adjustment to existing system/structure.
- Retains CO2-based approach of pure CO2 emissions-based system.
- More manageable number of bands.
- Estimated yield based on projected sales of 70,000 new cars in 2013 (2011 outturn: 87,086; 2012 estimated outturn: 77,000).

Cons:

- Will result in up to 3% increases for some models
- Not entirely future-proofed – will require further review in medium term (perhaps 5 years).

Option 3 –
This option is a combination of the existing CO2 based system but broken out on the basis of engine size.

Pros:

- Goes some way to address perceived unfairness, expressed in particular in relation to Motor Tax rates, that quite expensive cars with bigger engines pay the same rate of motor tax as smaller less expensive cars under the emissions-based system.

Cons:

- Undermines the principle of a pure emissions-based system.
- Will not fully address the perceived unfairness of higher-engine cars in the lower bands.

[The Minister has indicated to the industry that a revised band structure of 11 bands will be introduced; the revised structure is set out at **Annex B].**

3. Replacing the VRT system

3.1 The Commission on Taxation recommended that the VRT system should be replaced by a system based on car usage in the longer term, to include increased excise on fuels and road charging. Such a system should be introduced over a 10-year period in order to minimise adverse impacts (in relation, for example, to the existing fleet of tax-paid vehicles).

3.2 Replacing the VRT system even over an extended period of years raises significant questions. It would require a road charging/pricing system to be put in place and/or considerable increases being made in excises on petrol and auto-diesel, and most likely a combination of both. A further – EU-recommended – option could be to consider putting it on motor tax. Some of the advantages and disadvantages are as follows.

3.3 Some Advantages

- Taxation on the basis of vehicle use – and therefore actual contribution to environmental damage – would be a more targeted approach than taxation on the basis of vehicle purchase, from an environmental perspective.
- Revenues from fuel purchase and road charges would be more stable, or less volatile, than those from vehicle purchases.

3.4 Some Disadvantages

- The abolition of VRT and a switch to increased excise on petrol and diesel would require significant price increases in those fuels. For example, taking a target tax yield of around €400m in VRT, increases of the order of around 20c per litre on both petrol and diesel would be required. This estimate is based on historically low car sales volumes.
- If increases in motor tax were applied, the question arises as to who benefits from the increased revenue – the Exchequer or the Local Government Fund.
- Such increases in excise, and unit cost, could contribute to a re-emergence of 'reverse fuel tourism' relative to Northern Ireland and the UK, leading to losses in business and in Exchequer yields.
- Abolition of VRT would have a significant negative effect on re-sale valuations for the existing car fleet, and could depress the new car market throughout the phasing period. It would also have a particular negative effect on those doing high mileage (e.g. rural residents) and the haulage and transport sectors.
- Significant improvements in public transport options would be needed to provide reasonable alternatives to private vehicle use, particularly in rural areas. A road charging system, raising sizable revenue, would also need to be put in place.

4. Second Registration Period from 2013

4.1 As part of its pre-Budget 2012 submission, SIMI submitted a number of proposals in relation to registration plates. The first proposal related to allowing a vehicle owner to re-register their vehicle in their county of residence. The second one was for the introduction of a second vehicle registration period in the year, beginning in 2013, in an effort to (i) generate an additional sales peak in the second half of each year, and (ii) to stabilise employment in the motor industry, which it felt could arise from the effect of

that second peak. The question of a second registration period in the year has been the subject of numerous representations and parliamentary questions in recent times. It is also seen within the industry as a means of addressing the 2013 issue.

4.2 Last December, officials sought the views of the major stakeholders with regard to issues which would have to be considered in relation to both options. Informal discussions also took place in recent months with some of the parties. The stakeholders canvassed were the Department of Transport (as keepers of the National Vehicle and Driver File (NVDF), the National Roads Authority, An Garda Siochána, Road Safety Authority, Department of the Environment and the Revenue Commissioners.

4.3 In relation to the first proposal, the question of allowing for the re-registration of a vehicle was opposed on the grounds that a single registration per vehicle is important in the context of the integrity of the system. On the second proposal for a second registration period in the year, responses ranged from the Garda and Revenue highlighting administrative difficulties and costs, to more positive views suggesting that there was no structural issue for them provided that the current format was maintained. There are 3 main options for a re-structured registration plate:

1. Creation of a 3-digit year, the first 2 digits to refer to the year, followed by a '1' or a '2' to reflect either the first or the second registration period respectively in the year, e.g. 131 LK 1000 or 132 LK 1000. Number sequence would revert to "1" for the second registration.
2. Leaving the current format of a 2-digit year intact, but having even numbers for the first period and odd numbers for the second period, e.g. car registered in January would be 13 LK 5000, while a car registered in July would be 13 LK 5001.
3. At the start of the year, show the year as normal, e.g. "13" but for a second (i.e. July) registration, add 50, showing "63".

While there would be some cost and logistical challenges in each of the stakeholder organisations, it is understood that because the same maximum number of digits are being maintained (6 digit numbers for a six month period are very unlikely to be reached for a number of years), the costs are manageable, and the logistics can be updated. Any proposed changes to the IT systems would have to be scheduled along with numerous other changes necessitated. These challenges will be replicated within each of the other stakeholder organisations in the event of this change being made.

4.4 The suggested revision outlined at 2 above would only require change by the Revenue Commissioners. However, the impact is not visible enough for the industry and

it doesn't address the "2013" issue. Option 3 doesn't address the "2013" issue for the first part of the year, but could have the effect of generating a greater level of new sales in the latter part of that year. It would also mean there could be a slight difficulty in relation to a small number of cars on the road which may already possess old plates which contain years '63, '64 and so on.

5. Export Refund Scheme

5.1 An export refund scheme involves a refund of a residual element of VRT contained in a vehicle on the permanent "export" of the vehicle to another Member State. A refund system would most likely involve both members of the motor trade and private individuals. It is likely that the more significant proportion of 'exports' would come from the trade, and that certain dealers would specialise in sourcing second-hand cars from main dealers and 'exporting' them for resale in the UK or outside the EU. Such schemes are in place in some EU Member States, and the introduction of such a scheme on an EU wide basis was considered in 2007 but agreement was not reached.

5.2 It was decided that consultation on the introduction of an Export Refund Scheme should take place and in that regard the Minister announced a consultation process with a view to putting an Export Refund Scheme in place which would allow for a refund of VRT contained in a vehicle on the permanent export of the vehicle. It was intended that the scheme be introduced in 2013 and we have been advised by the Revenue Commissioners that the necessary IT infrastructure will be put in place in two tranches, the first following a November 2012 release and the second following a January 2013 release. They have advised that they expect to have the repayment system operational in February 2013.

5.3 The cost to the Exchequer will depend on a number of factors, including the number of cars exported, the value of those cars and the type of cars replacing in Ireland the cars exported (e.g. new cars or used imports). For illustrative purposes, if for example 5,000 cars with an average value of €8,000 and average VRT rate of 24% per car were exported, the VRT refunded would amount to €9.6m (€1,920 per car). In addition, there would be set-up and on-going administration costs and resource implications for Revenue.

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

5.5 In addition to the more general issues relating to an Export Refund Scheme as outlined above, the existence of ongoing EU Infringement proceedings in relation to the treatment for VRT purposes of rental/lease cars, particularly as it affects the position of rental/leasing companies from outside the State, has brought the introduction of such a scheme into greater focus. Under current legislation, companies based outside Ireland would, in relation to those vehicles driven on Irish roads, incur a VRT charge. The EU has determined that Article 56 of the EU Treaty (restricting businesses outside the State in their freedom to provide services within the EU) is being breached. The EU Commission argues that the application, without refund, of VRT on rental/lease cars has the effect of discriminating against car rental/lease operators from other Member states who wish to operate here. As a consequence of the introduction of such a scheme, these issues should be circumvented. The EU Commission has been advised of developments and to date have not lodged any objections to the proposed scheme.

6 Other EU Issues

6.1 The EU Commission has taken infringement proceedings against Ireland in relation to how it depreciates vehicles that are less than 3 months old. The issues had formed part of another infringement (1999/5231), the elements of which had been dealt with over the past number of years, but the remaining issue revolves around how Ireland calculates the depreciation of cars which are less than 3 months old. Previously, Revenue depreciation tables treated such vehicles as new for VRT purposes, mainly to ensure that cars could not be purchased outside the jurisdiction and registered immediately after and be regarded as a used car for registration (and consequently VRT calculation) purposes. However, the EU Commission found that this treatment was in contravention of Article 110 of the EU Treaty (imposing taxation on imported products in excess of that on similar domestic products)

Excise Relief on Fuel

6.2 Ireland, like several other Member States, had derogations under the EU Energy Tax Directive (ETD) to apply a low, or nil, rate of excise duty on road and other fuels in certain circumstances. These derogations expired on 31 December 2006. Legislative changes were made in the Finance Act 2008 withdrawing the reliefs from 1 November 2008, with the exception of the relief for fuel (petrol and diesel) provided for disabled drivers under the Disabled Drivers and Passengers (Tax Concessions) Scheme.

6.3 A letter of Formal Notice issued from the Commission regarding the above reliefs on 18 September 2008. A Reasoned Opinion, in respect of the relief for fuel provided for disabled drivers, was issued on 5 May 2010. To avoid being taken to the ECJ, the

Commission was informed that we would bring the excise duty relief for fuel used by disabled drivers/passengers into line with the requirement of the minimum levels of taxation set out in Energy Tax Directive with effect from 1 April 2011.

6.4 However, in December 2010, the Minister indicated that he was deferring a decision as to how, and from when, the excise relief was to be withdrawn to comply with the Commission's Decision. The Commission wrote on 14 April 2011 seeking the specific measures Ireland had taken to bring Irish legislation in line with Directive 2003/96 from 1 April 2011. In response to this letter, the Commission were informed, on 30 May 2011, the new Minister for Finance has decided that before he approves the action being sought, he wants the Disabled Drivers and Disabled Passengers (Tax Concessions) Scheme, under which the excise relief on fuel is provided, to be submitted for examination under a Comprehensive Expenditure Review procedure set up by the Government to consider existing public expenditure measures.

6.5 Current excise on petrol (including carbon tax) is 57.6 cent per litre (EU Minimum is 35.9 cent) and on auto-diesel is 46.6 cent (EU Minimum 33 cent). If we withdrew the relief in full or reduced the excise relief to the difference between the EU Minimum rates and the current Irish excise rates the average cost to disabled drivers/passengers would be around €450 per annum if the relief was withdrawn in full, and around €300 if the excise duty above the EU minimum excise rates was to continue to be relieved. [If relief is claimed on the maximum quantity of fuel allowed, the maximum cost would be €1,571 and €979 respectively in the case of petrol; and €1,271 and €900 respectively in the case of auto-diesel.] In the case of organisations, as they have higher fuel limits, the losses would be 1.5 times the above figures.

6.6 If the relief is withdrawn in full the saving to the Exchequer is €6m, and if the excise duty above the EU minimum excise rate was to continue to be relieved the saving to the Exchequer would be €4m. It is very questionable whether a continuing rebate of €2m in total, or an average of €150 per claimant, to some 13,500 participants is justified given the level of administration and staff (fulltime equivalent of 4 staff) involved in Revenue in providing the rebate under the Scheme. Correspondence with the Commission on this matter has been concluded and the matter has been referred to the European Court of Justice.

7 Reliefs for Electric, Hybrid Electric and Flexible Fuel Cars

7.1 A VRT relief scheme, which has been in place for some years, for series production **hybrid and flexible fuel cars**, which currently provides relief of up to €1,500, is due to expire on 31 December 2012 unless it is extended (the maximum relief was reduced from €2,500 in Budget 2011, and previous to that there was a 50% VRT relief provided). These reliefs were brought in as an incentive for manufacturers to modernise and

improve technology. The relief was maintained in 2008 when the new CO2 related VRT system was introduced, especially as flexible fuel cars would benefit little under the new system given the way their CO2 level is measured for their Certificate of Conformity. The most recent changes in and extensions to the relief are the third such changes. The technologies used in these vehicles can, at this stage, regarded as "old technologies", with the technology associated with electric vehicles being regarded as the more up to date technology. It is felt prudent to maintain the reliefs pending the economic circumstances which would be more conducive to take-up of electric vehicles.

7.2 In 2011 some 710 hybrid and 1,352 flexible fuel cars were purchased; with overall VRT relief of around €3m. To end September 2012 around 731 hybrid and 1,192 flexible fuel (mainly one model) cars have been purchased; with overall VRT relief of around €2.8m provided.

7.3 The VRT exemption for **electric vehicles** and the VRT reliefs of up to €2,500 **for plug-in hybrid electric vehicles** were extended in Budget 2010 to 31 December 2012. There have been 132 Electric cars purchased to end September 2012. In addition, the Electric Vehicles Grant Scheme administered by the Sustainable Energy Authority of Ireland (SEAI), which commenced on 1 January 2011 and runs until the end of 2012 provides a grant of €5,000 for electric and €2,500 for plug-in hybrid electric vehicles. There is a clear emphasis being placed on electric vehicle technologies, and this is reflected in the range of reliefs and grants being provided.

7.4 As indicated above there is a full exemption from VRT for **electric vehicles,** but now with a cap of €5,000 in relief available (a measure which was introduced in Budget 2011*).*

October 2012

Annex A

New Cars Purchased - broken down by CO2 Emission Bands

	CO_2 Emissions (CO_{2g}/km)	**VRT Rates**	**2007**	**2008 (a)**	**2009**	**2010**	**2011**	**2012 (to end Sept)**
A	0 – 120g	**14%** of OMSP	1.5%	3.8%	13.0%	34.7%	42.7%	54.3%
B	More than 120g/km up to and including 140g/km	**16%** of OMSP	16.3%	26.8%	44.7%	45.5%	48%	38.5%
C	More than 140g/km up to and including 155g/km	**20%** of OMSP	23.4%	19.3%	19.7%	10.4%	4.9%	3.8%
D	More than 155g/km up to and including 170g/km	**24%** of OMSP	24.7%	25.0%	13.4%	6.4%	2.6%	1.8%
E	More than 170g/km up to and including 190g/km	**28%** of OMSP	21.6%	15.9%	6.7%	2.1%	1.0%	1.0%
F	More than 190g/km up to and including 225g/km	**32%** of OMSP	8.4%	6.4%	2.0%	0.6%	0.6%	0.6%
G	More than 225g/km	**36%** of OMSP	4.2%	2.8%	0.4%	0.3%	0.2%	0.3%

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

2009, 2010 and 2011 figures – D/Finance and Revenue data.

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

OMSP = Open Market Selling Price

Annex B

Revised Bands	g CO2/km	VRT Rates (% of OMSP)
A1	0-80g	14%
A2	81-100g	15%
A3	101-110g	16%
A4	111-120g	17%
B1	121-130g	18%
B2	131-140g	19%
C	141-155g	23%
D	156-170g	27%
E	171-190g	30%
F	191-225g	34%
G	226g and over	36%