



The carbon maze – a guide to Europe's environmental regulations for company cars

A White Paper from GE Capital Solutions

Introduction

The way company cars are taxed is changing throughout the European Union, reflecting environmental concerns and the need to reduce emissions, particularly of carbon dioxide (CO₂). This paper explains the likely changes and how they will affect the managers of company car fleets. It looks both at the general picture across Europe and at specific changes in eight member states: Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain and the United Kingdom. We hope this paper will help you prepare for, and benefit from, this revolution in car-tax policy.

Why the change?

All EU member states have agreed to reduce CO₂ emissions from new cars to 120 grams per kilometre (g/km) by 2012. This is a colossal undertaking: a 25% reduction in around four years. To put this into perspective, it is worth remembering that in the fourteen years from 1990 to 2004, average emissions for new cars fell by only around 12%, from 186g/km to 163g/km. Now, a proposed European Council directive is intended to ensure that member states achieve the promised reductions, in part by changing the ways in which cars are taxed and ensuring that states adopt a consistent approach. To achieve its goals the Commission has identified that up to 50% of taxes must be related to CO₂ output by 2010 in all countries.



GE imagination at work

Change on this scale will require great and concerted efforts on the part of national governments, car manufacturers and drivers. Fleet managers will need to be well prepared and well advised to deal with the effects.

How the new directive will work

The European Council's proposed directive sets out a strategy consisting of three parts:

1) Voluntary commitments from manufacturers

The directive encourages Europe's car manufacturers to make voluntary technological improvements that will reduce the CO₂ emissions of their vehicles. Manufacturers will also be asked to sign an EU code of good conduct covering their marketing. The idea of this would be to encourage manufacturers to promote their vehicles' environmental credentials, using them as a selling point – just as they have traditionally used speed and acceleration.

2) Consumer education

To complement this voluntary action, the EU would like to see public-information campaigns. This might include advertising to promote the idea that your car's carbon emissions have an impact. It could also mean introducing clear labelling so that when people choose a new car they know exactly how it will impact on the environment. Consumers could then make comparisons and informed choices.

3) Changes in the way vehicles are taxed

In addition to the voluntary action that the directive asks of manufacturers, it also proposes a framework for using tax reforms to reduce emissions. If the directive is agreed by the European Council, Parliament and Commission, the framework is expected to come into force sometime between the end of 2007 and the middle of 2008. It envisages changes in engine technology reducing emissions to 130g/km, with reductions of another 10g/km coming from improvements in other areas, such as tyres, air-conditioning and fuel.

This is the most complex and hotly debated part of the strategy. The changes it sets out would affect both of the main ways in which governments tax cars. These are **registration taxes**, paid when the car is bought, and **annual circulation taxes**, often called road taxes, paid for using the car. It proposes two radical changes:

Abolishing registration taxes

From 1 January 2016, member states would not be allowed to charge registration taxes. Because states get so much revenue from these taxes, there would be a gradual transition to circulation taxes over the next nine years.

One of the effects of this would be to reduce the difference in car prices among the EU's member states, which would be fairer for customers and would make it easier to move cars from one state to another. An impact assessment has predicted that this would lead to new-car prices falling in states where they are currently high, without causing rises in other states.

There are concerns that, while registration taxes are being phased out, consumers would end up being taxed twice. To avoid this, governments would set up systems to refund some of the registration taxes.

Basing taxes on CO₂ emissions

In the meantime, both registration and annual circulation taxes will increasingly be based on CO₂ emissions. The overall target level for tax that is linked to carbon emissions is 25% in 2008, rising to 50% by 2010. Making CO₂ emissions such a large factor in car taxation levels is likely to lead to significant changes in the way cars are manufactured and in motorist behaviour. Previous impact assessments have shown that of all the various options, introducing new taxes that are directly related to CO₂ emissions, produces the largest reductions in pollution overall. Studies also show that smaller, but still significant reductions would result from incorporating a clearly defined CO₂ element in existing taxes. However, it was found that a blanket increase in fuel taxes – regardless of any other factor related to emissions – would only cut average CO₂ emissions by a comparatively small amount.

The rest of this document describes how eight countries will be changing their laws and regulations on the taxation of company cars to take account of the proposed directive. For some, very little will be altered – generally where there has been an overhaul in the past year or two. In other countries, great changes are planned.

Belgium

Tax deductibility

New rules will be introduced on 1 April 2008, following a year-long transition period. Under the new rules, the rate at which all of a car's costs – except fuel and interest – are deductible will depend on its CO₂ emissions. Rates will range from between 60% for diesel cars producing more than 175g/km and for petrol vehicles emitting over 190g/km, to 90% for diesels producing less than 105g/km and petrol cars emitting less than 120g/km.

Private use of company vehicles

The current rules governing how much tax

individuals pay for using their company cars privately are based on horsepower and the distance between the employee's home and work. No changes are imminent, but they are likely eventually to take account of CO2 emissions.

Road and registration tax

The regional authorities are responsible for these taxes, which are currently based on the engine's horsepower and kilowatts. The federal government has asked them to change the taxes, so that they are based on CO2 emissions, and the Flemish government has said that it wants a road tax based on CO2 to be introduced from the beginning of 2009.

Discount for clean cars

The current system of discounts, reclaimed by individuals through their personal tax, will be changed. The new rule was introduced in January 2007, and gives a discount of 15% on the car's purchase price for cars with CO2 emissions of less than 105g/km. For those with emissions between 105 and 115g/km, the discount is 3%. However, it is not yet clear whether this applies to company cars. There is also a discount on the purchase price of diesel cars fitted with particulate filters, if CO2 emissions are less than 130g/km. The government is currently evaluating whether to make particulate filters mandatory for new diesel vehicles.

Fuel

From 1 January 2008, all service stations will have to sell BioDiesel, with BioPetrol becoming compulsory a year later.

Social contribution

"Social contributions" have been levied on company cars since 2005. These are based on a changing formula last revised in 2007. For petrol cars, the new formula for the amount to pay, is CO2 emissions (in g/km) multiplied by nine, minus 768, all multiplied by 1.04076. For diesel cars, it is the same, but minus 600 rather than 768.

France

Registration tax

The French government has been aiming to influence attitudes and behaviour by introducing new taxation and an information campaign, targeting companies and the general motoring public. The first of these initiatives was in 2006 and there was a second wave at the end of 2007.

The 2006 changes took the CO2 emissions of a vehicle into consideration when calculating registration tax, with a surcharge being applied to cars with CO2 emissions greater than 200g/km and

with exemptions for green cars. There were also similar changes on company car taxation (TVS).

Fuel tax

Cars running on electricity, natural gas, Super Ethanol (E85) or LPG became exempt from company car taxes linked to carbon emissions, for the first two years of the vehicle's life. This tax varies between 2 Euros per gram for a 100g/km car, to 19 Euros per gram for a car producing more than 250g/km. For cars running on a combination of petrol and LPG, the exemption is up to 50% of this tax.

Throughout France, there are also a variety of one off regional taxes - normally levied upon registration - where cars running on electricity, natural gas, LPG and E85 can take advantage of exemptions ranging from between 50% and 100%. However, cars emitting over 200g/km pay an extra 2 Euros for each additional gram, up to 250g/km, when the extra paid increases to 4 Euros per additional gram.

In addition, the government has created a new obligation that all new vehicles must have their CO2 emission performance levels stated clearly on a label.

Fuel

In 2006, The French government strongly supported the development of alternative fuels, and set a target for having biofuels account for 5.75% of all fuel produced by 2010.

Tax deductibility

More recently in December 2007, the government implemented a new rule called "Bonus Malus écologique" that increased the tax paid by vehicles with emissions greater than 160g/km. A further bonus is also offered for each new vehicle ordered, which emits less than 130g/km.

This new tax will no doubt create demand for the greener vehicles and also encourage OEMs to adapt their products accordingly. The overall objective is to achieve an average of 130g/km in 2020 for the entire French vehicle fleet, compared to the current level of 176g/km today.

Germany

Tax Deductibility

The current rule, whereby all car-related costs are 100% deductible, is being discussed at the moment, and may change. Possible new directions being discussed include the introduction of a new CO2 based car taxation system, as proposed recently by Germany's Transport Minister, Wolfgang Tiefensee.

Fine particles

A new law, intended to reduce emissions, has been introduced, though each of Germany's regions will independently decide when to begin enforcing it. Under this law, every car will be categorised into one of three groups, which will determine in which areas they are allowed to drive. A number of cities have determined environmental driving zones. Cars may enter these zones only if they display a coloured sticker. The sticker is only available for vehicles that produce low level emissions. Vehicles without a sticker are prohibited from driving in these zones and will be fined if they attempt to enter them.

Fuel

Sales tax levels for Biofuels (CNG, LPG) are to be kept below the level applied to Petrol and Diesel until 2018. And the tax on BioDiesel will be increased on a yearly basis to the level of fossil Diesel, up until 2012.

Portugal

Tax deductibility

In 2006 the government decided to add an "environment component" (Componente Ambiental) to the tax that vehicle importers pay when they sell a car. This began at 10% of the tax, rose to 30% in July 2007, and in 2008 should reach almost 60% of the total car tax, which will change its name to Imposto Sobre Veículos (ISV). As well as being paid when a car is bought, the government has also decided to transfer an element of this tax to cover mileage driven during ownership of the car.

Road tax

A new "unique circulation tax" (IUC) will be payable every year. This will be calculated on the basis of CO2 emissions and engine size in cubic centimetres. For cars registered after 2007, the cost will be on average three to five times as much as the previous tax, though cars registered before this will continue to pay the old rates. Diesel vehicles fitted with particle filters will get a tax discount.

The Netherlands

Energylabel

From now on, every car in the Netherlands must display an "Energylabel" that shows how fuel-efficient it is compared with other cars of its size. This runs from "A", for cars that have fuel consumption more than 20% below the average, to "G" for those with a consumption of more than 30% above average. These labels are reviewed every

year, and they are used to set company car taxation levels, rather using CO2 emissions alone.

Private use of company vehicles

Since 2006, 22% of a company vehicle's catalogue price is added to an employee's taxable income, spread over twelve monthly installments, if personal use amounts to more than 500km per year. From 2008 onwards, this has been changed. From this date, the taxable percentage for cars with lower emissions was reduced to 14% (applying to petrol vehicles emitting up to 110g/km and 95g/km for diesel cars). The taxable percentage has been increased to 25% for higher polluting cars above these levels.

Registration tax

Car registration tax - Belasting van personenautos en motorrijwielen (BPM) - is based on the vehicle's list price, with discounts or additions depending on its Energylabel. From 2008, BPM will be reduced and road tax will increase in preparation for the nationwide "pay as you drive" road taxes that will be introduced in 2012.

Fine particles

Also from 2008 there will be incentives for fitting cars with particulate filters, with discounts on BPM for cars sold with a filter already fitted, and subsidies available for retro-fitting filters to older cars.

Italy

Road and registration tax

The registration taxes levied by each province are not likely to change to incorporate more of a green element. Neither are structural changes to road tax expected. Instead, the Italian government aims to use subsidies or tax exemptions to encourage people to buy newer cars, thus reducing the number of older, more polluting cars on the roads. The Italian government has recently approved new financial legislation for 2008, which extends the existing incentives for drivers, with some small changes to the rules applied in 2007.

For example, a 700 Euro (instead of 800 Euro as in 2007) tax incentive, plus a 1 year exemption from the circulation tax, is available if a car complying with Euro 0, Euro 1 and Euro 2, registered before 1 January 1999, is scrapped and is replaced with a new one labelled Euro 4 or 5, emitting less than 140g/km of CO2.

Only if a Euro 0 vehicle is scrapped is the Road tax exemption prolonged for another year. An

additional 100 Euro is available if the new vehicle acquired emits less than 120g/km of CO₂. Cars leased with a long term rental contract are excluded from this incentive at the moment.

Tax deductibility

In addition, Italy has recently changed its rules (with retrospective effect) on the VAT recovery of car expenses. Previously 40% of the VAT incurred on cars purchased in the period 1 January 2003 to 13 September 2006 could be reclaimed. For purchases made after this – from 14 September 2006 to 27 June 2007, VAT could be reclaimed based on business use of the car in the respective VAT return period.

Therefore, the new policy means that businesses, which experienced a lower recovery rate for purchases made in the period 14 September 2006 - 27 June 2007, can now benefit from an increased recovery rate of 40%. For purchases made after 27 June 2007, VAT remains deductible at 40%.

Spain

Registration tax

New Registration taxes will come into force in 2008, introducing differing taxation levels according to CO₂ emission levels. Vehicles emitting less than 120g/km will not be liable for any registration tax. Cars producing between 121 and 159g/km, will suffer tax at 4.75%; vehicles with levels of between 160 and 199g/km will incur rates of 9.75%; and those producing over 200g/km will pay 14.75% in registration tax – exceeding the previous maximum rate of 12%.

Road tax

Road tax rates are set by each city and town in Spain, using a general rule based on the car's engine, taking into account the number and size of the cylinders and their stroke length. This formula is likely to change to one based on CO₂ emissions.

The United Kingdom

Tax deductibility

For Cars, 50% of the VAT on vehicle lease rentals and 100% of VAT on services can be reclaimed. In addition, 100% VAT can be reclaimed for leased Vans. For vehicles with a retail price greater than £12,000, a proportion of the tax deducted is permanently disallowed (Expensive Car Leasing Disallowance – ECLD).

In addition, capital allowances are linked to CO₂ emissions, with businesses able to claim 100% enhanced capital allowances for buying new low-emission vehicles. These are defined as cars registered on or after 17 April 2002 and either electrically propelled or emitting CO₂ emissions of 120g/km or less. Low emission cars are also removed from special capital allowance rules for cars whose retail price exceeds £12,000 (ECLD).

Private use of company vehicles

When a company car is also used privately by an employee it is treated by Her Majesty's Revenue and Customs (HMRC) as a benefit in kind. The rate at which this is taxed depends partly on CO₂ emissions and the type of fuel the vehicle uses. For cars emitting up to 120g/km, the benefit in kind tax will be 10% (13% for Diesel) from April 2008. Cars emitting 121 to 135g/km, will pay tax at 15% (18% for Diesel) from April 2008. The rate rises 1% for each 5g/km for vehicles producing up to 235g/km. Cars emitting 235g/km or more will suffer tax at 35% from April 2008.

The impact of type of fuel is as follows: diesel vehicles suffer a 3% supplement which is capped to restrict the maximum tax at 35%, whereas Hybrid engines enjoy a 3% discount, Bi-Fuel vehicles a 2% discount and electric cars a 6% discount.

Road and registration tax

Vehicle excise duty, usually called road tax, has increased in 2007 to favour vehicles with lower emissions (those with CO₂ emissions less than 100g/km do not pay the tax) and penalise those with higher emissions (those with CO₂ emissions of more than 226g/km pay £300 per annum).

Fuel tax

Company car drivers pay fuel tax and reclaim it using Advisory Fuel Rates (AFRs) which are paid up to Approved Mileage Allowance Payment (AMAP) rates. These have recently been reviewed by the UK Government and from 8 January 2008, AFRs were changed as follows:

> Up to 1400cc	
Petrol	10p to 11p
Diesel	10p to 11p
LPG	6p to 7p
> 1401-2000cc	
Petrol	13p to 13p
Diesel	10p to 11p
LPG	8p to 8p
> Over 2000cc	
Petrol	18p to 19p
Diesel	13p to 14p
LPG	10p to 11p

Meridian Trinity Square
23-59 Staines Rd
Hounslow TW3 3HF
T + 44 208 754 28 40
www.gecapitalsolutions.eu

Belgium
Gemeenschappenlaan 5
5, Avenue des Communautés
1140 Brussel - Bruxelles
T + 32 2 724 05 75
www.gecapitalsolutions.be

France
92, avenue de la République
94706 Maisons-Alfort Cedex
T + 33 1 58 73 50 00
www.gecapitalsolutions.fr

Germany
Bojuwarenring 5
82041 Oberhaching
T + 49 89 744230
www.gefleetservices.de - www.asl.com

Italy
Via Giuseppe Rosaccio, 33
00156 Rome
T + 39 06 415381
www.gecapitalsolutions.it

Luxembourg
4, rue de l'Eau
L-1449 Luxembourg
T + 352 42 46 01
www.gecapitalsolutions.lu

Netherlands
Europalaan 6
5232 BC 's-Hertogenbosch
T + 31 73 6407 407
www.gecapitalsolutions.nl

Portugal
Quinta Da Fonte
Edifício D. José, Piso 0
2774-533 Paço D'Arcos
T + 351 214 824 700
www.gecapitalsolutions.pt

Spain
Anabel Segura, 16
Edificio Vega Norte 3
28108 Alcobendas (Madrid)
T + 34 91 732 92 00
www.gecapitalsolutions.es

Sweden
Solna Strandväg 98
FE 304
171 75 Stockholm
T + 46 8 559 502 00
www.gecapitalsolutions.se

Switzerland
Bändliweg 20
8048 Zürich
Postadresse: Postfach, 8021 Zürich
T + 41 44 497 41 00
www.gecapitalsolutions.ch

United Kingdom
Old Hall Rd
Sale
Cheshire M33 2GZ
T + 44 870 444 9020
www.gecapitalsolutions.co.uk

© 2008 General Electric Company
All Rights Reserved

This brochure is printed
on environmentally friendly paper.



GE imagination at work