

REGISTRATION TAXES ON VEHICLES: EVOLUTIONS AND TRENDS IN THE EUROPEAN UNION AND ROMANIA

Lazăr Sebastian

Universitatea "Al. I. Cuza" Iași, tel: 0232 201610, e-mail: slazar@uaic.ro

The registration taxes are widely used throughout the European Union. The recent implementation by the Romanian authorities of a special tax for vehicles generated a lot of disputes, not only in our country, but also at the European level. Are these disputes justified? Which are the practices in other countries of EU? Which are the rules and the recommendations set by the EU in this field? The present paper tries to respond these questions and to make some recommendations for Romania

Key words: registration tax, pollution target, trends, Romania's special tax

Cars are the most important means of transport used by the European citizens in order to accomplish their right of free movement within the Community. Also, vehicle taxation is one of the most consistent sources of budget revenues in all member states, and also generates massive public expenditure for road infrastructure and environment protection. At the same time, vehicles generate a lot of CO₂ emissions, and therefore, represent one of the biggest polluters. One must note that transport is responsible for about 28% of total CO₂ emissions, road transport representing 84% of all transport related CO₂ emissions of which more than a half is due to the passenger vehicles. So, vehicle taxation is becoming one of the key factors of EU politics, because it deals with two major European issues: the free movement and the environmental protection, which apparently seems to be in opposition with each other.

The major vehicle related taxes in European Union can be summarized as follows:

- registration taxes;
- circulation taxes;
- fuel taxes;
- property taxes (especially for company cars);
- turnover taxes (VAT), excise duties and other consumption taxes.

The present paper deals with the registration taxes, which became more disputed in the actual context of Romania. The so-called "tax for the first registration" has generated many disputes, both internal and external. The European Commission had argued that such a tax is in disaccord with the free market principles and summoned Romania to abandon it. But, so far, the Romanian authorities did not manifest the intention to abandon the tax, but to reconsider it in order to respect the basic principles that are at the foundations of the European Community.

The first directives in the field were 83/182 and 83/182 that were adopted when internal frontiers between member states still existed. They referred to VAT, excise duties and other consumption taxes, but make to reference to registration taxes. From 1st of January 1993, Directive 91/680 set new rules applicable to VAT on cars purchased in another member state. But in the field of registration taxes, there are few common rules that may be taken into account when it comes to tax the cars put in circulation. Nevertheless, a recent Directive of the Council of European Union (2005/0130) stipulates that every member state shall abandon any registration tax by the 1st January 2016.

The registration taxes on vehicles put some problems like: double taxation, administrative procedures and extra costs, which creates obstacles to the free movement within the Community. In the same time, registration taxes could prevent the registration of high-polluting cars, by differentiation in the level of taxation in accordance with the CO₂ emissions. Thus, authorities in member states are confronted with a controversial issue, when it comes to registration tax on vehicles, mainly due to both the advantages and disadvantages of such an instrument of fiscal policy.

When it comes to the reduction of the pollution generated by cars, the target set at European level consists in reducing CO₂ emissions from new passenger cars to 120 gram per kilometre by 2010 at the latest. In the year 2000, the average level of CO₂ emissions from newly registered cars was 172 g/km¹, which indicates a very long way to meeting the target.

In this context, the major issue that appears consists in the way in which the authorities should react in order to reduce CO₂ emissions, and in the same time to gradually abandon a powerful fiscal instrument meant to assist them in fulfilling CO₂ emissions objective. Thus, the registration taxes have to suffer some reconsideration in order to fulfil the European requirements:

- the implementation of a refund system in order to avoid double taxation;
- the introduction of the CO₂ based element in the assessment of tax;

¹ European Commission's Directorate-General for Environment - Fiscal Measures to Reduce CO₂ Emissions from New Passenger Cars, A study contract undertaken by COWI A/S, p.3, available at: http://ec.europa.eu/taxation_customs/resources/documents/co2_cars_study_25-02-2002.pdf;

- the gradual abolition of registration tax until 1st of January 2016;

In The European Union there is little harmonization concerning registration taxes on vehicles. The tax rate lies between 0% and 180% of pre-tax car price in relative terms, and between 267 EUR and 15659 EUR². A summary of such taxes can be viewed in the following table

Table no.1. Registration taxes in member states of the European Union

Member State	Registration taxes	Approximate amount of registration taxes and charges (EUR)
Belgium	Registration tax (on the first registration) Tax base is cc	Range from 61,5 to 4,957
Germany	None	
Denmark	Registration tax. Tax base is price incl. VAT. Advantages for save and eco-friendly cars	Rate is differentiated with price, 105% up to DKK 62,700 and 180% of remainder
Spain	Registration tax. Tax base is price excl. VAT	Rate is differentiated with cc and diesel or gasoline. Range from 7 to 12 %.Rates can be increased up to 10% by Regional Government
Greece	Registration tax. Tax base is the higher between ex-factory value of the vehicle+ freight+insurance or paid price	Rates take into account engine capacity and anti-pollutant technology
France	None	
Italy	Registration tax. Fixed amount that can be increased by each Province up to 20%	150.81 (180.97)
Ireland	Registration tax. Tax base is price incl. VAT	Rates depending on the cc between 22,5 and 30%
Luxembourg		
Netherlands	Registration tax. Tax base is price excl. VAT	Rate is differentiated between petrol(45,2%) /diesel(45,2%)
Austria	Registration tax. Tax base is price excl. VAT. Bonus-malus system for particle emissions	Rate is differentiated with fuel consumption. Maximum 16%
Portugal	Registration tax. Tax base is cm3	
Finland	Registration tax. Tax base is price excl. VAT.	28%
Sweden	None	
United Kingdom	None	
Czech Republic	None	
Hungary	Consumption tax (RT) -based on engine size and catalytic converter or not. Wealth tax, based on size of engine	10% -20% of purchase price of car. Differentiated petrol and diesel cars 15HUF/cm3 <1890cm3 20HUF/cm3>1890cm3
Latvia	Motor vehicle tax based on vehicle's age at time of acquisition	373 for new vehicle 223 for 2 year old vehicle

² COMMISSION OF THE EUROPEAN COMMUNITIES - Proposal for a COUNCIL DIRECTIVE on passenger car related taxes, Brussels, 5.7.2005, COM(2005) 261 final, p. 2, available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0261en01.pdf;

Malta	Registration tax (1 st registration)	Vary from 50,5% of car value if <1300cc, up to 75% if >2000 cc
Slovakia	None	
Slovenia	Registration tax (1 st registration)	1% -13% purchase price
Cyprus	Registration tax on new vehicles based on cc, type of vehicles and with a CO ₂ emissions adjustment	Rates ranging from 0.51 CYP per cc for cars <1450 cc up to 8.01 CYP for cars >2650 cc. -15% for cars emitting <150 g CO ₂ Km, but +10% for cars >2250 emitting >275g CO ₂ Km
Estonia	None	
Lithuania	None	
Poland	Registration tax based on the value/price and the years of the vehicle	Tax rate between 3.1 and 65%

Source: COMMISSION OF THE EUROPEAN COMMUNITIES – Annex to the proposal for a COUNCIL DIRECTIVE on passenger car related taxes, Brussels, 5.7.2005, COM(2005) 261 final, p. 35, available at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/other_taxes/passenger_car/impact_assessment_EIAfinal_en.pdf;

From the table we can notice that countries such: Germany, France, Luxembourg, Sweden, United Kingdom, Czech Republic, Slovakia, Estonia and Lithuania have no registration taxes. The rest of the countries taxes the registration of cars, using a variety of tax bases (price, cylindrical capacity, age, level of pollution) and tax rates (ad-valorem or fixed amount).

Due to the double taxation, the necessity for harmonization becomes obsolete, and thus, the Commission pleads for the total abandon of such a tax. But, the Commission grants a transition period in which member states could take measures in order to off-set the impact on budget revenues. One must note that car registration tax range from 0.1% (Estonia, Hungary) to a maximum of 3.7% (in Malta) of total taxation revenues³, so an instant abandon of registration tax will generate financial distress on national budgets. The solution agreed at the European level is the gradual transfer of registration taxes to annual circulation taxes and fuel taxes.

But the problem of double taxation still remains and until 2016 it must be tackled in an appropriate manner. A person who buys a car from another member state should pay the registration tax in his country of residence, although the same tax was paid previously (when the car was put in circulation for the first time) by the seller in his country of residence. So, double taxation appears and therefore must be eliminated, or at least reduced.

The solution adopted by the European Commission is a refund system for registration taxes already paid. The amount of registration taxes to be refunded shall be “in direct relation with its residual value and shall be equivalent to the amount of the residual registration taxes incorporated in its residual value”⁴. If a person buys a new car at a price of 20000 EUR and after 2 years sells the same car to a buyer from another member state at 12000 EUR, the seller must be taxed only for value of the car that “he had consumed”, respectively 20000 – 12000 = 8000 EUR. But, as he had paid the registration tax all at once (at the moment when he put the car in circulation), at the selling moment he is entitled to a tax refund corresponding to the residual value of the car. If we assume a proportional tax of 1%, the seller is entitled to a tax refund of 120 EUR (1% of 12000 EUR). As he had paid initially 200 EUR (1% of 20000 EUR), it results that the owner had effectively supported only 80 EUR, corresponding to the value of the car “he had consumed”.

Of course, in order to determine the real residual value of a vehicle and to reduce fiscal evasion, member states are entitled to apply different methods, such as assessments, expert examinations or the use of fixed scales.

Such a refund scheme must be implemented by all member states, but these operations are difficult to be put into practice.

In the meantime, in order to respond to environmental targets, the design of the registration tax must take into account the CO₂ emissions as the main pillar of assessment. The reform of registration tax means that by 1 December 2008 (the start of the Kyoto period) at least 25% of the total tax revenue from registration taxes (but also from annual circulation taxes) should originate in the CO₂ based element of each of these taxes. By 31

³ COMMISSION OF THE EUROPEAN COMMUNITIES – Annex to the proposal for a COUNCIL DIRECTIVE on passenger car related taxes, Brussels, 5.7.2005, COM(2005) 261 final, p. 35, available at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/other_taxes/passenger_car/impact_assessment_EIAfinal_en.pdf;

⁴ COMMISSION OF THE EUROPEAN COMMUNITIES - Proposal for a COUNCIL DIRECTIVE on passenger car related taxes, Brussels, 5.7.2005, COM(2005) 261 final, p. 18, available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0261en01.pdf;

December 2010, at least 50% of the total tax revenue from both the annual circulation tax and the registration tax (pending its abolition) should originate in the CO2 based element of each of these taxes⁵.

In Romania, from the 1st of January 2007, there is a new special tax, the so-called “the tax for the first registration” which is paid only once, respectively when the vehicle is first put into circulation.

The amount of tax can range from 0 EUR/cm³ (for hybrid cars) to 2 EUR/CM³ (for non-euro vehicles). There are also, correlation coefficients that vary in accordance with the age and the depreciation of the vehicle. The formula of this tax is:

$$\text{Tax} = A * B * C * ((100-D)/100,$$

where:

- A = cylindrical capacity (cm³)
- B = unit of taxation (EUR/cm³) varying on pollution level;
- C = correlation coefficient depending on the age of the vehicle;
- D= depreciation coefficient depending on the age of the vehicle

The critics of such a measure were intense and have extended beyond our national borders. Also, the defenders were very determined in sustaining this measure that is kept into action, in spite of some critics of the European Commission. A summary of the main pros and cons on this issue is presented in the following table:

Table no.2. Pros and cons regarding the tax for the first registration

Pros	Cons
Has a positive impact on environment protection	It is a discriminatory measure (affects only imported second-hand cars, leaving indigenous second-hand cars untaxed)
Contributes to the development of indigenous automotive industry	Restricts the possibility of replacement of the old car

It is not our intention to make some partisan considerations about this tax: is it good or is it bad? We just want to express some opinions trying to make a contribution in the improvement of its design.

First of all, it really has a positive impact on environment protection. The simple fact of taxing heavily the more polluting cars will discourage the imports of big old cars, which consume more and emit a larger quantity of CO₂. Also, it may have a positive impact on development of indigenous automotive industry, taking into account the structure of internal production, dominated by small cylindrical capacity vehicles. If our automotive industry were orientated through bigger cars, this effect would not be present.

Second, it affects in deed only the imported second-hand cars, so it may seems discriminatory, but we must not forget that the tax is meant to levy only on the cars that enter the Romania’s roads. Those cars contribute to the increase of the stock of “polluting items” (cars), and therefore, in the light of the Kyoto protocol, any taxation of such items may seems reasonable to certain limits. A solution to eliminate the discriminatory side of he tax is to tax the same way the used indigenous cars, but in this case, we can not longer speak of the tax for the first registration or for the first put into circulation, which we think, is a more suitable appellation.

Third, we can speak of a double taxation within the Romania’s territory, as the previous registration tax, the one which every one of us had to paid when he first registers his car was not abandoned. It is not the case of reselling the car outside Romania; it is the simple case when a buyer has to pay two taxes with the same meaning in order to obtain his license plates.

The major inconvenient of the special tax is, in our opinion, its progressivity, which can be classified as very high. By comparison, the tax for a new car of 1600 cm³, that meets the Euro 4 standards is 183,6 EUR, while the same car with the same engine, but with 1800cm³ capacity is taxed up to 481,95 EUR, which means 2.62 times more. This progressivity is not in accordance with the CO₂ emissions of the two cars, and therefore, must be smoothened.

In order to avoid the sanctions from the European Union, this tax must not be seen as a tax (for the simple fact) of registration, nor as a tax for protecting the indigenous automotive industry. The Romania’s authorities have called it a special tax, which is paid when the vehicle is first registered in Romania. This tax is not an excise

⁵ COMMISSION OF THE EUROPEAN COMMUNITIES - Proposal for a COUNCIL DIRECTIVE on passenger car related taxes, Brussels, 5.7.2005, COM(2005) 261 final, p. 8, available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0261en01.pdf;

duty, nor another consumption tax. The ecological side of the tax must be emphasized, as this tax to be seen as a fiscal instrument to promote a less polluting traffic, by taxing only “the new entrants“ on Romania’s roads.

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