

ENVIRONMENT DEPARTMENT

Consultation Paper

Environmental (CO2) Tax on Motor Vehicles

In 2008 the States noted the Policy Council's **Energy Policy** paper and approved a number of work streams.

Work stream 1Bxii of the Energy Policy requires the Environment Department to investigate the introduction of a **sliding emissions tax on first registered vehicles and also to investigate a subsidy for zero emission vehicles**. The Department has examined schemes operated in other European jurisdictions and has noted the consultation undertaken in Jersey.

The Environment Department wishes to receive the views of individuals, businesses and organisations on

- The desirability and practicality of introducing a motor vehicle emissions tax and the form such a tax should take.
- Whether such a tax should aim to raise income for the States or be tax neutral with tax take being returned as subsidies for low emission vehicles.
- The merits of the various approaches that could be applied to change buying habits and promote a switch from inefficient high emission vehicles to low or zero emission vehicles.

Please respond to this consultation paper by writing to:

The Minister
Environment Department
Sir Charles Frossard House
La Charroterie
St Peter Port
GY1 1ZF

Closing Date for responses: 31 January 2010

1. POLICY AIM

To date the States has not adopted the approach of raising a tax to fund a specific project or service (hypothecation) but instead revenue raised from taxes is combined with other income and used to fund a range of services provided by the States. Whilst there has been no dedicated debate on this approach the matter has been raised at a number of States meetings and the general view has been against raising taxes to fund specific services.

In light of this, there is no current proposal from the Environment Department, the Treasury and Resources Department or the Policy Council's Energy Sub Committee to introduce a general "green tax" specifically to fund "green initiatives".

This consultation document is not, therefore, about raising a general "green tax" to fund a range of environmental projects. It is a consultation document on the specific policy aim of discouraging vehicle owners from purchasing and circulating high emission vehicles and seeks views on the role taxes can play in achieving that objective.

The policy option has two elements – first to penalise those who wish to own and circulate high emission vehicles and second to reward/incentivise those who wish to invest in newer cleaner alternative vehicle options.

Consultees are asked to comment on this policy aim and the two elements

2. POLICY DELIVERY

Typically, European jurisdictions apply both a first registration tax (a tax when the vehicle is registered in that jurisdiction for the first time) and an annual circulation tax (an annual tax that must be paid before the vehicle is driven on the public highway). Tax rebates, purchase discounts or other incentives may be offered to those who purchase clean emissions vehicles. The levels of tax/rebate applied vary from country to country but the basic principle is that the levels applied to the circulation tax and the first registration tax work jointly to drive consumers towards lower CO2 emission and lower fuel consumption vehicles.

For example:

Italy exempts low emission vehicles from annual circulation tax (road tax) for 2 years (3years if the engine cc is below a stated level) provided a higher emission (older) vehicle is scrapped at the same time as the new registration.

Cyprus reduces the annual circulation tax (road tax) rate for low emission vehicles and, at the same time, charges a reduced first registration tax.

Belgium applies an income tax reduction to private individuals registering a low emission vehicle.

The UK applies a complex 13 band annual circulation (road tax) approach to private vehicles each band representing an increase in emissions of approximately 10g/km of CO2 with additional bands for motor bikes, trikes, light good vehicles, heavy goods vehicles and buses.

Guernsey has replaced the annual road tax with a tax on petrol and diesel. This “fuel tax” impacts on high consumption vehicles (high consumption equals more fuel equals extra tax). As an incentive to reduce consumption a fuel tax generally also results in reduced emissions. In addition the petrol/diesel tax may encourage increased use of gas and electric powered vehicles again leading to reduced emissions. However, the removal of the annual road tax removes the ability to use this recurring annual charge to penalise high emission and reward low emission vehicle ownership.

The Department is unaware of any jurisdiction that relies solely on tax on fuel (or a first registration tax coupled with tax on fuel) to drive consumer habits away from high emission vehicles. As a consequence, none of the European models bare direct comparison and the impact an annual recurring (road) tax has on purchasing habits is, therefore, currently not available to Guernsey. The Department does not favour the reintroduction of road tax and the administrative burden that it carries and so the first registration tax alone (perhaps supported by a petrol tax) would need to act as sufficient incentive to change buying habits.

Consultees are asked to comment on the desirability of reintroducing an annual road (circulation) tax as a tool by which high emission vehicle ownership can be penalised and low emission vehicle ownership rewarded.

3. SOME KEY QUESTIONS

Clearly the policy is intended to encourage a switch away from high emission vehicles to fuel efficient low or zero emission vehicles. But this policy needs clarification in a number of areas.

- i. Will the policy be targeted solely at the motor car or will it apply to motor bikes, trikes, light goods vehicle, heavy goods vehicles and buses? Including goods vehicles and buses will increase the potential “overspill” impact of the policy in terms of inflation (goods vehicles) and affordability of key public services (buses).
- ii. What definition will be applied to low and zero emission? The levels at which rewards are applied varies with jurisdiction. Examples include: below 140g/km; below 130g/km; below 120g/km; and below 105g/km.

Penalty levels also vary with jurisdiction. Whilst many adopt 160g/km as the level at which penalties are applied others use 240g/km as a trigger point. The Department is unaware of any model that treats zero emission differently to low emission.

- iii. How will diesel be treated? Diesel tends to be lower emission when compared with a petrol engine of similar capacity. To discourage owners from swapping from petrol to diesel whilst maintaining the same vehicle size, some jurisdictions apply fuel consumption or engine size factors into the equation.
- iv. Does the policy to drive procurement to low emission vehicles stand alone or is it coupled to a desire to remove, from the roads, the older higher emission vehicles? Some jurisdictions require simultaneous disposal of an older vehicle in order to attract the highest levels of rebate.
- v. Is a positive payment (as opposed to tax rebate or discount) desirable when considered in the context of other policies to discourage car ownership and promote alternative means of travel? For example some jurisdictions have reduced (via a VAT/GST break) the purchase cost of the lowest emission vehicles whilst maintaining the VAT/GST and applying an emissions tax on the higher emissions vehicles. It could be argued this works counter to promoting alternative transport methods as it makes (low emission) vehicles more affordable than they would otherwise be and hence leads to increased car ownership.
- vi. Is a one off charge preferred to an annual recurring charge? The latter is considered to exercise higher decision leverage but carries with it a much larger resource requirement and necessitates the reintroduction of a road tax. Conversely, for the one off charge to have effect the level needs to be significant and this could impact on the car sales industry driving people to continue to circulate older more polluting models.
- vii. What are the factors which influence vehicle choice and what level of tax is required to impact on that choice leading to low emission vehicle ownership? The majority of European and APEC (Australian Pacific) jurisdictions apply some form of purchase tax on vehicles. A 20% tax would not be unreasonable. The tax break for low emission vehicles can be as high as 50%. Therefore for a £10,000 vehicle a 20% tax would be £2,000 and the low emission tax break would equate to £1,000. Added to this is the first registration tax which is ranked up for higher emission vehicles potentially by a difference of approximately £1,000, i.e. the price differential to drive consumer habits may be as much as £2,000. However, this price differential is typically reinforced by an annually recurring circulation tax penalty.
- viii. Is a revenue neutral option preferred? This would require grants for low emission vehicles to be funded from the tax on high emission vehicles. The level of grant and tax would require annual adjustment to maintain a largely tax neutral position. Whilst being revenue neutral this approach might overly incentivise vehicle ownership (of smaller cleaner vehicles) leading to an increase in vehicle ownership and hence running counter to

the policy to support alternative transport means (buses, walking and cycling).

Consultees are asked to comment on these policy issues.

4. POSSIBLE OPTIONS

It will be appreciated that with so many issues the delivery options are almost endless. This is evidenced by the fact that no two European mechanisms in this area are identical (or even especially similar). Answering some key questions could assist in narrowing the options and directing the way forward.

- i. Which is more important - a simple resource free solution or a fair, transparent, evidence based solution?
- ii. Which is more important – forcing the policy in the hopes that the switch to low emission follows even if that results in an increased tax take or being seen to apply a “good tax” meaning a fair justifiable tax neutral approach which actually delivers a change in attitude rather than supporting a policy which only delivers an increased tax take?
- iii. Which policy is more important and will deliver the most realistic gain for Guernsey – promotion of alternative means of transport **or** accepting private vehicle use provided it is low emission?
- iv. How committed are we to a major change – are we targeting the private vehicle owner **or** are all forms of high emission motorised transport targeted?
- v. How aggressive do we wish to be, are we prepared to increase purchase price for high emission vehicles by a given percentage (5%, 10%, 15% or more)?

Consultees are asked to provide feedback on these questions.

5. POLICY EXAMPLES

In order to provide greater clarity as to how responses to the issues set out above could ultimately be built into policy recommendations for consideration by the States some hypothetical examples representing the range of the policy spectrum are set out below.

These are just selected examples of many options that could be adopted.

Consultees need not comment on these hypothetical examples but may of course do so.

Example 1

A green tax on fuel set at a sufficiently high level (perhaps 50p per litre) to discourage vehicle use. The additional tax revenue simply accruing to the States general revenue reserves.

This is a simple (single factor), resource free policy but showing little if any concern for policy overspill. It is a policy that would not be seen as a “good tax” as it may simply result in increased tax revenue without necessarily generating a corresponding and proportional impact on consumer habits. The policy would, however, demonstrate a desire to discourage all vehicle use. The penalty is recurring and hence over time has greater leverage than a one off payment but it does not comply with the direction of the Energy Policy set out at the start of this paper. The policy could lead consumer habits towards more fuel efficient vehicles (provided the tax was high enough) ultimately reducing the number of inefficient vehicles on the roads but it could have wide spread inflation and other policy overspill issues.

Example 2

A sliding scale first registration green tax applied in discrete bands perhaps according to the table below.

Vehicles up to 120g/km of CO2 emissions	No tax
Vehicles of 120 -140 g/km of CO2 emissions	£500 tax
Vehicles of 140 -160 g/km of CO2 emissions	£1000 tax
Vehicles of 160 -180 g/km of CO2 emissions	£1500 tax
Vehicles of above 180g/km of CO2 emissions	£2000 tax

This is a relatively uncomplicated (single factor) policy to introduce and administer but the need to check the CO2 rating against bands would introduce an additional administration burden. It is a policy that would not be seen as a “good tax” as it may simply result in increased tax revenue without necessarily generating a corresponding and proportional impact on consumer habits. At the higher emission levels commercial vehicles would be captured. However, as a single event tax spread over the life of the vehicle policy overspill and inflationary impact should be minimal

Example 3

A flat fee first registration green tax of perhaps £2000 on vehicles with CO2 emissions above 120g/km, revenue being ring fenced and returned to fund grants of perhaps £2000 on vehicles with CO2 emissions below 120kg/km.

Use of green taxes linked to subsidies generating a revenue neutral cash flow creates a more complex policy with a probable need to annually adjust the value of the tax/subsidy or the number of subsidies available each year. As such the policy is more administratively burdensome. It is a policy that would be seen as a good tax because it would be revenue neutral and does not involve dual taxing but as a consequence does not have an annual recurring element. The decision leverage, therefore, rests solely on the £4000 spread between the high and low emission tax/subsidy. At the higher emission levels commercial vehicles would be captured. However, as a single event tax, spread over the life of the vehicle, policy overspill and inflationary impact should be minimal.

Example 4

A sliding scale first registration green tax applied in discrete bands perhaps according to the table below.

Vehicles up to 120g/km of CO2 emissions	No tax
Vehicles of 120 -140 g/km of CO2 emissions	£500 tax
Vehicles of 140 -160 g/km of CO2 emissions	£1000 tax
Vehicles of 160 -180 g/km of CO2 emissions	£1500 tax
Vehicles above 180 g/km of CO2 emissions	£2000 tax

Revenue being ring fenced and returned to fund grants of perhaps £1000 on vehicles with CO2 emissions between 50kg/km and 100kg/km and £2000 on very low/zero emission below 50kg/km vehicles.

Use of sliding scale green taxes linked to subsidies generating a revenue neutral cash flow creates a more complex policy with a probable need to annually adjust the value of the tax/subsidy or the number of subsidies available each year. As such the policy is more administratively burdensome. It is a policy that would be seen as a good tax because it would be revenue neutral and does not involve dual taxing but as a consequence does not have an annual recurring element. The decision leverage, therefore, rests solely on the spread between the high and low emission tax/subsidy. At the higher emission levels commercial vehicles would be captured. However, as a single event tax, spread over the life of the vehicle, policy overspill and inflationary impact should be minimal.

Example 5

A green tax on fuel set at a modest level of perhaps 5p per litre– revenue being ring fenced and returned to fund the “low vehicle emission policy”

Supported by a first registration tax based on the level of CO2 emissions (perhaps above 100g/km) calculated as £20/g less £2000 [i.e. 100 g emission would pay £0 tax, 140g/km would pay £800 tax, whilst 200g emission would be £3000 tax] – revenue being ring fenced and returned to fund the “low vehicle emission policy”

Supported by a first registration grant based on the level of CO2 emission (perhaps below 100g/km) calculated as £2000 less £20/g [i.e a 100 g vehicle would get no grant whilst a zero emission vehicle would get £2000 grant]. The grant would only be available if a vehicle with a Euro emissions rating of 1 or 2 (a vehicle older than 1996) was destroyed at the same time.

The above registration taxes to be restricted to private cars.

The tax and rebate value adjusted annually in light of the previous year’s experience to remain tax neutral.

This is a complex (multi faceted) policy that would be resource burdensome to implement and administer. It would be seen as a good tax because it would be revenue neutral but does involve dual taxing (first registration tax and tax on fuel). The absence of fixed bands of CO2 emissions requires the application of a formula for each registration. The policy would encourage both the purchase of low emission vehicles and the removal of higher emission vehicles (older) through the scrapage scheme. It relies on dual taxing but is aimed at getting the greatest change in the shortest time. It has a recurring element to increase decision leverage. With a recurring element that would impact on commercial vehicles potential for inflation and policy overspill exists.

Closing Date for responses:

31 January 2010