

ANNEX D

Vehicle Registration Tax (VRT) Rebalancing VRT to take greater account of CO₂ emission levels

1. Introduction

In Budget 2007, the Minister for Finance, Mr Brian Cowen, T.D. announced his intention to change the Vehicle Registration Tax (VRT) system and car capital allowances to relate them more closely to environmental policy objectives, in this case reducing Carbon Dioxide (CO₂) emissions. The aim was to rebalance the systems in order to give consumers some reward for choosing lower CO₂ emission vehicles; and that those choosing higher emission vehicles would pay more.

2. Current VRT system

VRT is an important source of revenue for the Exchequer, yielding €1.3bn in 2006 and estimated at €1.4bn in 2007, providing around 3% of the total tax receipts. Most of the VRT yield is derived from passenger cars.

The main categories within the current VRT system and the associated VRT charges for cars are:

A1	Cars up to 1,400cc	22.5% ¹ of Open Market Selling Price - OMSP
A2	Cars 1,401 to 1,900cc	25% of OMSP
A3	Cars over 1,900cc	30% of OMSP

3. Consultation Process

A public consultation process was undertaken. Over sixty submissions were received, of which nineteen were from representative organisations or firms, with the remainder from individuals. Representatives from the Department of Finance, the Revenue Commissioners and the Department of the Environment, Heritage and Local Government met with eight representative organisations and with five individuals to discuss their submissions. The issue of rebalancing VRT was also discussed at the Tax Strategy Group.

4. Taking greater account of CO₂ Emission Levels through VRT

In introducing any changes to the VRT system it is desirable that the system be maintained as simple as possible both in terms of ease to understand and to administer. The changes should be made on a broadly revenue neutral basis not only on introduction but also into the future. Linking the VRT rates to CO₂ emission levels should mean cleaner cars being purchased. Account has also to be taken of the likely impact on the car buying public and the car market.

5. New VRT system

Taking into account the above criteria and the views conveyed during the public consultation process, it has been decided to introduce a fully CO₂ emissions related VRT system with effect from 1 July 2008. The new system will be as follows:

¹ Passenger cars are subject to a minimum VRT tax of €315

- The VRT rate applicable to new and used imported cars registered on or after 1 July 2008 will be determined by the CO₂ emission rating of the car and will no longer be related to engine size.
- A seven band CO₂ emissions system - A to G – will apply. It will be underpinned by a new CO₂ Emissions Labelling System for cars, on the lines of the energy efficiency labels for white goods, to be introduced by the Department of the Environment, Heritage and Local Government.
- Seven VRT rates, ranging from 14 per cent to 36 per cent, depending on the car's CO₂ emission level, will be applied to the Open Market Selling Price (OMSP) of the car.

The following Table sets out the CO₂ emission bands, the new relevant VRT rate and, for reference only, the distribution by CO₂ emission band of new cars that were purchased in 2006.

CO₂ Emissions Bands	g CO₂/km	VRT Rates	Distribution by CO₂ Band of new cars in 2006
A	0 - 120g	14%	1.6%
B	121 - 140g	16%	12.8%
C	141 - 155g	20%	25.9%
D	156 - 170g	24%	22.0%
E	171 - 190 g	28%	23.1%
F	191 - 225g	32%	9.9%
G	226g and over	36%	4.7%

6. Impact of new VRT system

The number of VRT rates is increased from three to seven, thereby making it slightly more complex than the current VRT system. If the new rules were applied to the 2006 new car sales, over half of the cars sold would have their VRT rates reduced. Some 70% of cars sold in 2006 were in the CO₂ Emissions Bands C to E, where changes in the VRT rates will be smallest.

Cars with lower CO₂ emissions will have their VRT rates reduced. Such cars, while being spread across car sizes, will tend to be smaller cars. Conversely, cars with higher CO₂ emissions will have their VRT rates increased, and while again being spread across car sizes will tend to be larger cars. However, there will be considerable opportunity for purchasers of cars across a broad spectrum of car options to reduce their VRT costs by making reasonable choices in relation to CO₂ emission levels.

Car purchasers will in general be able to continue for the most part to choose broadly the type of car they want under the new system, without necessarily experiencing increased VRT. A number of illustrations of changes in applicable VRT rates under the new system are given at the end of this Annex. The illustrations are done on the basis that both the reductions and increases arising from the VRT rate changes are passed on in full to the customer.

7. Determining CO₂ emission levels of vehicles

The CO₂ emission rating for each new car being registered will normally be determined based on the emissions information contained in the model's Certificate of Conformity, a document which, since 2001, European law has required to contain such information. In respect of used imports, the CO₂ rating will have to be declared on form VRT4 (Declaration for registration of a used vehicle) by the person registering the vehicle. The declaration will be required to be supported by documentary evidence of the CO₂ rating, for example, a Certificate of Conformity, a previous registration certificate, or a certificate from the manufacturer or a main distributor, provided in each case the CO₂ rating is included; or a certificate from an organisation approved by the Revenue Commissioners to provide such certificates. Where a certificate or a measurement is not available or fails to satisfy the Revenue Commissioners, the VRT tax charged could be set at the maximum VRT rate allowable. Such a VRT rating would be open to appeal through the VRT appeals system.

8. Existing environmental initiative in the VRT system

The existing VRT relief scheme for series production hybrid electric and flexible fuel cars, which expires on 31 December 2007, is being extended to 30 June 2008. From 1 July 2008 the relief for such cars will be adjusted to give a relief of up to €2,500 on the VRT payable; this is in addition to the benefit of the new VRT CO₂ emission related banding.

With effect from 1 January 2008, electric cars and cycles will be exempted from VRT.

9. Capital allowances and leasing expenses for business cars

The scheme was reviewed in the lead-up to the Budget and account was taken of comments made on the scheme in submissions received relating to the revision of the VRT system. In addition, representatives of the motor industry and the business sector were consulted in the course of the review.

As a result of the review, a revised scheme of capital allowances and leasing expenses is being introduced from 1 July 2008. Under the revised scheme, certain cars with lower CO₂ emissions will benefit from higher capital allowances or higher deductions in respect of leasing expenses. Cars with higher CO₂ emissions will receive reduced allowances and leasing expenses or none at all. Details of the revised scheme are set out in the Summary of 2008 Budget Measures.

**Illustrations of effect of the revised VRT system on a selection
of cars currently on the market (a)**

Car Type	Engine size (cc)	Current VRT rate	CO ₂ (g/km)	New VRT rate	New VRT Payable €	Change in VRT Payable €	Estimated Percentage Change in Price
Small							
(Petrol)	995	22.5%	158	24%	2,554	+207	+2.0
(Petrol)	998	22.5%	109	14%	1,495	-1,171	-9.9
(Petrol)	1242	22.5%	142	20%	2,880	-465	-3.2
(Diesel)	1248	22.5%	123	16%	2,432	-1,275	-7.7
(Diesel)	1399	22.5%	119	14%	1,921	-1,505	-9.9
Medium							
(Petrol)	1360	22.5%	155	20%	3,502	-565	-3.1
(Diesel)	1364	22.5%	128	16%	3,116	-1,634	-7.7
(Petrol)	1398	22.5%	158	24%	4,579	+370	+2.0
(Diesel)	1560	25%	124	16%	3,037	-2,278	-10.7
(Petrol)	1598	25%	178	28%	5,878	+840	+4.2
Large							
(Petrol)	1596	25%	172	28%	6,718	+960	+4.2
(Petrol)	1769	25%	192	32%	8,654	+2,524	+10.3
(Petrol)	1798	25%	174	28%	8,275	+1,182	+4.2
(Diesel)	1896	25%	148	20%	5,660	-1,887	-6.3
(Diesel)	1998	30%	156	24%	6,524	-2,330	-7.9
(Petrol)	1998	30%	176	28%	8,802	-898	-2.8
Executive							
(Petrol)	1984	30%	227	36%	13,910	+3,312	+9.4
(Diesel)	1995	30%	144	20%	8,001	-5,716	-12.5
(Diesel)	2231	30%	168	24%	8,987	-3,209	-7.9
(Petrol)	2967	30%	259	36%	21,544	+5,129	+9.4
MPVs							
(Petrol)	1598	25%	178	28%	7,754	+1,108	+4.2
(Diesel)	1753	25%	166	24%	8,133	- 451	-1.3
(Diesel)	1896	25%	196	32%	12,957	+3,780	+10.3
(Diesel)	1910	30%	165	24%	6,465	-2,310	-7.9
(Petrol)	1997	30%	208	32%	9,042	+ 807	+2.9
(Diesel)	2497	30%	209	32%	12,123	+1,081	+2.9
4X4s							
(Petrol)	1998	30%	202	32%	12,152	+1,085	+2.9
(Diesel)	2179	30%	194	32%	12,448	+1,111	+2.9
(Diesel)	2184	30%	190	28%	9,692	-989	-2.8
(Diesel)	2982	30%	243	36%	23,812	+5,670	+9.4
(Diesel)	3200	30%	244	36%	16,957	+4,038	+9.4

(a) These illustrations are calculated on the basis that both the reductions and increases arising from the VRT rate changes are passed on in full to the customer.