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00628-16: Energy & Environmental Options Budget 17#10

To: Minister	**Author:** Ciaran Conroy
Status: For Review by Minister	**Owner:** Sub_FIN Ministers Office
Purpose: For Decision	**Reviewers:** Gerry Kenny,Gary Tobin
Division/Office: Budget & Economics Division	
Decision By:	

Action Required

Budget 2017 - Options Around Energy and Environmental Tax

Executive Summary

The Programme for Partnership Government identifies climate change as the global challenge of our generation. In this regard, the Tax Strategy Group examined how the tax system can be used to meet climate change goals of reducing emissions, increasing energy efficiency and developing less environmentally harmful policies to help towards meeting our binding EU 2020 climate targets and limiting our exposure to potential financial penalties.

This submission includes some of the options discussed in the areas of VRT; Motor Tax; encouragement of alternative, more environmentally friendly transport fuels; carbon tax; etc. It also includes proposals from the Minister for Transport, Tourism and Sport and the Minister for Communications, Climate Action and Environment.

While the estimated costs are relatively low, the paper also includes revenue raising options to offset these costs and to provide additional fiscal space if required. The main revenue raising proposal, the equalisation of excise on petrol and diesel, has its own climate policy rationale and would help signal a shift towards lower emissions vehicles rather than continuing to drive consumers towards ever higher levels of diesel penetration across the fleet.

Comments

- (30/09/2016 09:01:44) Gary Tobin: Minister, you will wish to discuss with officials.

Detailed Information

Summary of Possible Measures

Tax	Measure	Cost/yield per annum
VRT Relief	Hybrid Vehicles/Electric Vehicles extended	-
Benefit-in-kind	Revise and Commence Legislation	Costing not available at this time
VRT	Increase by 1% (assuming 130,000 sales)	+€41.8m
	Rebalance Light Commercial Vehicles	+€11.2
Equalise Excise Duty	Raise Diesel to Petrol over 5 years	+€66m
Increase excise on petrol and diesel	By 1c	+€38m
	By 3c	+€111m
	By 5c	+€184m
Carbon Tax	Provide full relief for fuel used in CHP plants	-€1.9m
	Increase by €5/€10 per tonne	+€109m/+€218

The paper is in two parts – Part 1 includes options to meet the climate change goals set out in the Programme for Partnership Government and addresses proposals raised by the Minister for Transport, Tourism and Sport as well as the Minister for Communications, Climate Action and Environment.

Part 2 provides revenue raising options, most of which, if adopted, will have a positive impact on the environment in their own right.

Part 1 - Climate Initiatives

1.1 The Minister for Transport, Tourism and Sport wrote to you seeking consideration of the following options;

- *Update and implement benefit-in-kind (BIK) treatment to focus low emission vehicles*
- *Introduce preferential BIK for Electric Vehicles (EV's)*
- *Retain Preferential VRT and Motor Tax Treatment for Low Carbon Vehicles.*
- *Reviewing the VRT and Motor Tax regime for light goods vehicles*
- *Rebalancing of excise duty on auto-fuels*
- *Roll over and extend VRT relief for EVs and hybrids.*

Electric Vehicles

1.2 The Programme for a Partnership Government has a stated intention that Ireland become a market leader in the take up of EV's. There has been approaches from the Minister for Transport and the ESB seeking a favourable benefit-in-kind rate for electric vehicles.

- **Benefit-in-kind -** It is argued that the introduction a zero rated BIK for EVs would send a strong signal and incentivise the adoption of this emerging technology. It is difficult to estimate the cost of commencing this measure, however, it could be part of a broader greening of the BIK system (See 1.4 to 1.6 below).
- **VRT exemption** - The current relief from VRT on EV's applies to a limit of €5,000 and is due to expire at the end of 2016. Removing this limit would send an important signal regarding the future direction of private vehicle ownership. Relief for EV's and Electric motorcycles, which are exempt from VRT, could also be renewed for 5 years instead of the 2 years as is the current practice. This will allow sellers incorporate a strategy for EV's into longer-term business plans as well as sending consumers a policy commitment incentivising EVs into the future. **Either way, this measure will need to be extended or improved otherwise it will expire at the end of 2016.**

Hybrid Vehicles

1.3 The current VRT reliefs for hybrid vehicles are due to expire at the end of 2016. These reliefs apply to hybrid electric and plug-in hybrid electric and cost €3m in taxes foregone in 2015.

- **Provide VRT Relief for 2 years** - As hybrid vehicles run primarily on a combustion engine they are a stepping stone to purely electric vehicles. While they are low emission vehicles it is important to separate them out from the zero emission EV's. Extending the hybrid VRT relief for a period of 2 years would signal future policy direction of only incentivising the most environmentally friendly vehicles. It may be necessary to introduce an emissions ceiling to ensure that only clean vehicles can avail of this relief. The hybrid relief currently costs €3m per annum, upon the expiration of the relief it could be assessed to see if it remains necessary.

Amendment and Commencement of Benefit-in-kind legislation

1.4 The Finance Act 2008 provided that BIK for vehicles should move from engine size to emissions based for environmental reasons. This provision was not commenced at that time due to the overall economic landscape. Department of Transport, Tourism and Sport and pushing for the commencement of this measure now.

1.5 The existing system of BIK has been criticised both for incentivising more pollutant vehicles, updating and commencing this provision would bring an environmental rationale to BIK. On the other hand, this could impact on individuals who have no input into the car purchased for them as part of their job resulting in a more costly BIK.

1.6 The 2008 provisions are now out of date at this stage and would have to be amended to take account of technological advancements in the intervening period and introduce a new category for electric vehicles. Revenue have suggested that such a change would require a lead-in time. If it were to be introduction from 1 January 2018, an announcement in Budget 2017 would send a policy signal and allow employers restructure payroll systems and plan vehicle purchasing options as well as allow for engagement with the car industry to ensure a smooth transition.

Vehicle Registration Tax

1.7 Since 2008 VRT has been levied on new vehicles based on the emissions they produce. The success of this policy necessitated a rebalancing of the emissions bands in 2013 to further the polluter pays principle and maintain Exchequer receipts. There have been calls for a further rebalancing to ensure the tax structure remains up to date with technological advancements which are resulting in ever decreasing emissions from new car sales.

1.8 The EU system of vehicle type approval, which our VRT and motor tax systems are based on, is due to be revised from 2017 using real world driving emissions. Some analysts believe this may result in an average emissions increase of 30% for vehicles when compared with the current system of laboratory testing. It is advisable to wait and see the impact of this revision to the type approval process before rebalancing the existing VRT and tax bands as, based on current information, it is likely that we will need to introduce a dual system for the period of transition which is expected to be 3 years.

Motor Tax

1.9 Motor tax is projected to generate €1,049m in 2016 which is €84m short of the 2015 receipts of €1,124m. This fall in receipts is caused by the significant reduction in the annual rates for larger goods vehicles coupled with a greening of the overall fleet with the vast majority of new car sales falling into the A band of motor tax which enjoy the most favourable tax rates. As with VRT, it is advisable to wait until the revision to the type approval process before rebalancing.

1.10 The Budget 2016 reduction in the rate of motor tax for HGV's has had the unintended consequence of breaching Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures. The Department of Environment has said that this can be corrected via secondary legislation. This will increase the top rate of HGV motor tax from €900 per annum to €929 resulting in an increase in motor tax receipts to the order of €320,000.

Combined Heat and Power

1.11 The Minister for Communications, Climate Action and Environment wrote to you seeking a review of the policy position in respect of carbon tax on fuel used in Highly Efficient Combined Heat and Power (CHP) plants. The practice in many other Member States, including Germany, France and Belgium is to entirely exempt the inputs to these from the carbon tax. In the UK fuel inputs are exempt from the Climate Change Levy.

1.12 Currently a relief is provided at the minimum rate allowable under the Energy Tax Directive. However, the White Paper 'Ireland's Transition to a Low carbon Energy Future 2015 -2030' states CHP should be encouraged to improve energy efficiency and in this context consideration should be given to a full exemption from the carbon tax for fuel used in these plants. This would also assist in the adoption of biomass as a power source in CHP plants. It is difficult to accurately estimate the cost of providing a full relief, however, based on current information, to fully exempt the fuel inputs used in HE CHP plants would cost in the region of €1.9m per annum.

A separate Finance Bill submission is being prepared on this.

Part 2 - Revenue Raising Options

Transport Fuels

2.1 Excise duty on transport fuels yield significant revenues for the Exchequer. In 2015 excise on petrol and diesel raised €2,119m which amounts to almost 5% of the total tax take. It is expected to raise in the region of €2,236m in 2016.

Receipts €m	2011	2012	2013	2014	2015	2016 estimate
Light Oils (Petrol)	€993m	€904m	€850m	€800m	€768m	€779m
Heavy Oils (Diesel, MGO etc.)	€1130m	€1116m	€1177m	€1219m	€1351m	€1457m

2.2 The price of oil is low at the moment resulting in the lowest prices at the pumps since 2009. There may be an opportunity to avail of these low prices to raise revenue without placing an undue burden on citizens.

2.3 There is a significant difference between the rates of petrol and diesel in Ireland. The resultant price difference together with VRT and motor tax carbon emissions based policies have resulted in dieselisation of the private car fleet.

Pathway to Equalisation of Excise Duty on Diesel and Petrol

2.4 The Minister for Transport and others, including the OECD, have called for an equalisation of the excise rate on petrol and diesel.

2.5 It would be prudent to equalise the excise rates through a long lead-in process. To introduce such a measure over a 5 year period would raise an estimated €66m in the first year rising to €328m on a straight line basis.

2.6 The long lead in period would send a signal to businesses and private motorists alike and allow for the adoption of alternative fuel sources such as vehicle gas or electric vehicles. An increase of 5c in the excise rate would still fall outside the diesel rebate scheme.

Excise Duty Increase

2.7 An increase in the excise on petrol would yield in the region of €13m for a 1c increase, €61m for 5c, and €120m for a 10c increase. Similar increases in the excise on diesel would range from €25m for a 1c increase to €123m for 5c and €244m for 10c. An increase of 3c on diesel would restore the excise differential between petrol and diesel to the pre-crisis level of 9c.

Vehicle Registration Tax

2.8 As consumers move to lower CO2 emitting vehicles, the VRT yield declines given the structure of the VRT rates. In terms of revenue raising, the following table outlines estimates of yields in 2017 where (Option 1) the rates remain the same and (Option 2) the rates are each increased by 1%.

No. of new car sales	**135,000**	**140,000**	**145,000**	**150,000**
Option 1- Status Quo	€607.3m	€639.8m	€652.3m	€674.8m
Option 2- 1% increase	€650.7m	€674.7m	€698.8m	€722.9m

VRT on Light Commercial Vehicles

2.9 The Minister for Transport, Tourism and Sport has called for the introduction of an environmental rationale to the VRT system applying to Light Goods Vehicles. Currently a flat rate of VRT at 13.3% of the OMSP applies to all category B vehicles with no environmental incentive.

2.10 One possible method of introducing an environmental rationale is to introduce 3 separate bands at 10%, 14% and 18% of the OMP depending on the emissions. If Category B vehicles with less than 120g/km incurred a 10% rate, vehicles producing between 121g/km and 155g/km incurred a 14% rate and more pollutant vehicles an 18% this would raise an additional €11.3m in a full year assuming no change in behaviour.

2.11 As with the request to rebalance VRT and motor tax it may be prudent to wait until the revision of the type approval system at EU level for cars before introducing such a measure.

Carbon Tax

2.12 Carbon Tax raised €419m in 2015 and is projected to increase to €435m in 2016. An increase in the rate of carbon tax by €5 per tonne of CO2 emitted would raise in the region of €109m annually while a corresponding increase of €10 per tonne of CO2 emitted would yield €218m. It is important to be cognisant of the impact the application of carbon tax is reported to be having on solid fuel traders, any increase would exacerbate this as well as impacting negatively on fuel poverty.

Related Submissions

There are no related Submissions.

User Details

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Action Logs

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