



## Fact Sheet: The Danish motor vehicle taxes

### Purpose of the taxes

In Denmark, two different taxes must be paid; A *registration tax* and an *annual green owner tax*. The *registration tax*, which is a purchase tax, was introduced already in 1910. The main purpose was to ensure that vehicle owners contribute to the public expenditures of road maintenance and construction. Today the *registration tax* aims to reduce the number of vehicles in Denmark. In addition, an annual weight-based tax had to be paid from 1910 until 1997. In 1997, the *green owner tax* replaced the weight-based tax to provide an incentive to use vehicles with higher energy efficiency and thereby reducing environmental damage caused by cars. In 2007, the tax system was restructured to give stronger incentives to choose smaller and more energy efficient cars.

### How the taxes works today

The annual *green owner tax* is based on how energy efficient the motor vehicle is (the number of kilometres driven per litre fuel), and ranges from €2740 EUR (<4,7 km per litre) to €83 EUR (> 20 km per litre).

#### **Box 1: Exceptions to the tax**

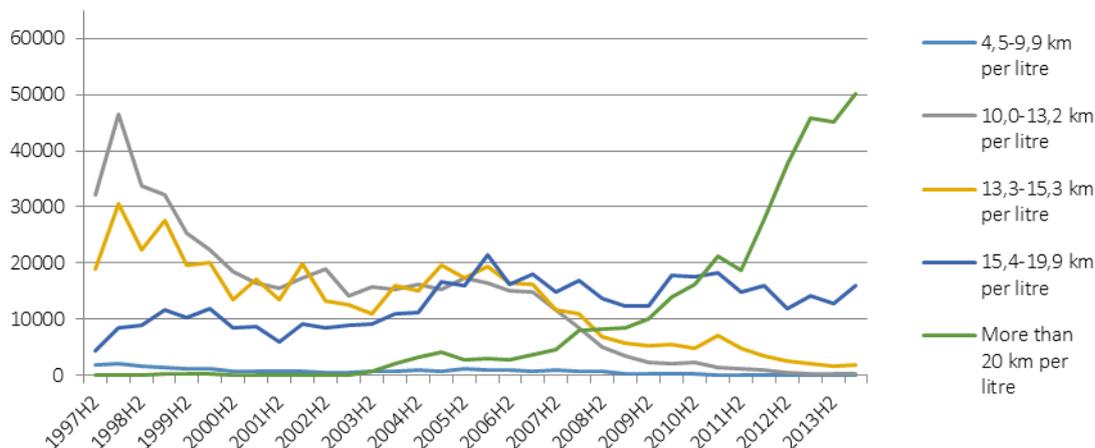
##### **Vehicles registered before 1997**

Before 1997, the annual vehicle tax was based on the weight of the vehicle. All cars sold before 1997 are therefore liable to annual weight based tax – lighter cars face a lower fee than heavy cars.

##### **Electric and diesel driven cars**

Under current legislation, electric and hydrogen cars are exempt from the registration tax through 2015. For diesel cars, owners are charged countervailing charges (a tax only payable for diesel cars) to counteract the difference in tax on petrol and diesel cars so that owners regardless of whether they own a petrol or diesel car pay the same amount of tax.

**Figure 1: Newly registered passenger cars, 1997 - 2014**



Source: The Danish Statistical Bureau

The *registration tax* is paid, when the vehicle is purchased. It must be paid when vehicles are registered for the first time in Denmark, including motorcycles, taxis, and buses up to four tons. Both the registration tax and the green owner tax are low, when the car is small and highly energy efficient, while they are high, when the car is big and only drives a few kilometres per litre. In 2014, the registration tax for passenger cars was 105% of the taxable value up to €10.951 EUR and 180% of the rest. In 2007, the tax was restructured, so that a discount is given on the registration fee of €536 EUR per km the car runs longer than 16 km per litres of petrol and 18 km per litre diesel, and a surcharge of €134 EUR per km the car runs below these limits. This regulation has led to a noticeable shift in car sales in the direction of small, more energy-efficient cars (see figure 1), and the average CO2 emission per kilometre from all the cars is still going down.

As seen from the figure, there has been a significant shift towards buying smaller and energy efficient cars. Passenger cars driving more than 20 km per litre now accounts for 73% of all newly registered cars and only around 7 % are cars driving below 16 km per litre.

### Tax revenue

The revenues from the tax have in the period since 2007 been between €3,2 and €4,8 billion EUR. In 2013, the revenues from the tax were €3,7 billion EUR, corresponding to 3% of total tax revenue. Below, in table 1, the yearly tax revenue from motor vehicle, taxes are shown.

**Table 1: Tax Revenue from motor vehicle related taxes in EUR, 2007-2015.**

	2007	2008	2009	2010	2011	2012	2013	2014*
Weight Duty/ Green Owner Tax	1171	1417	1321	1347	1327	1350	1463	1427
Registration tax	3269	2692	1613	1800	1849	1764	2005	2116
Total	4440	4109	2934	3147	3176	3114	3468	3543

*\*Estimates of august 2014. Source: The Danish Statistical Bureau.*

As seen in table 1, the registration tax has been decreasing since 2007, explained in more details below.

### Challenges – what could be better?

Even though there has been a shift toward small, energy efficient cars, the static tipping point at 16 kilometres per litre petrol and 18 kilometres per litre diesel, hampers the regulations ability to follow technological development. Today most small cars run longer than these limits, due to technological development and EU requirements for new cars. As 93% of newly registered passenger cars are above the '16 km per litre'-point and thereby of the registration tax discount, the average registration tax per new car is nearly 50 % below the 2007 level. Furthermore, the total fleet of cars has increased by nearly 10 % since 2007, but the revenue from registration tax has decreased by 35 % since 2007. This is neither a desirable development for the environment nor the economy.

The Ecological Council suggests that the tipping point in the car taxation are continuously adjusted, reflecting the technological development and CO2 emissions from the best vehicles on the market. The surcharges on the least energy efficient cars should be the same size as the deduction for the most energy efficient cars.

Finally, it is undesirable that the tax is calculated on basis of km/l. Denmark should, as in the rest of Europe base the tax on the amount of grams of CO2 per km. This would remove some biases when comparing reductions in the least and most energy efficient vehicles.

#### **Box 2: The industry response to the tax**

According to the Automotive Industry (*Danish: Bilbranchen, DI*) there is simply nothing good to say about the present registration tax. It limits the sales of new cars and create an incentive to keep cars for many years, while giving rise to speculation and unclear pricing on the car market. Therefore, it is of concern for the auto industry to get rid of the registration tax. The industry have proposed a new, green tax to replace the registration tax in its current form. Their proposal is to shift the entire registration tax to an annual CO2-based owner tax, which has the same profile as the green owner tax for petrol cars today. The industry expects the effects of a changed tax to include an increased sale of CO2 efficient cars, a younger car fleet and less import of used cars. Furthermore, the industry emphasizes that the overall vehicle taxation must not rise, as Danes already pay higher vehicle taxes than other Europeans (bil.di.dk).

#### **Focus: Company cars**

Company cars constitute only a smaller part of the Danish car fleet, because they become privately owned after a few years. However, company cars account for a third of all new cars purchased, and therefore greatly affect the composition of the car fleet. Seen in this context, it is a considerably problem that a tax discount is given to company cars on the part of the price that is above 300.000 DKK, and hence favors big cars. Furthermore, the user of the car pays a fixed amount for the right to use the company car for leisure, which typically includes free petrol, thus providing an incentive to frequent use of the car. To get away from this development, the Ecological Council proposes to remove the tax discount on large and expensive company cars and to remove the right of free petrol for private driving.

*The FRE-COMMUNICATE! project is funded by the Velux Foundations. VILLUM FONDEN and VELUX FONDEN are non-profit foundations, founded by VILLUM KANN RASMUSSEN – founder of VELUX and other companies in the VCR group, with the purpose of bringing daylight, fresh air, and a better environment into people's everyday lives.*

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