Presentation of Report

Working Group 6
FINANCIAL ISSUES

BY

Mahen Bheekhee

Lead Analyst

Ministry of Finance and Economic Development

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Report on Financial Issues

- Review of CO_2 levy/rebate scheme
- Replacement of Road Tax by a Fuel Tax
- Tax incentives to purchase cleaner and greener vehicles
- Scrapping of vehicles aged 30 years or more
- Financial Impact of the measures proposed in the study on the Socio-economic impact of policies for no or low emission vehicles

MEMBERS OF THE WORKING GROUP

- Ministry of Finance and Economic Development – Chair
- Ministry of Environment
- National Transport Authority
- University of Mauritius
- Ministry of Commerce
- Mauritius Revenue Authority

Review of the CO_2 levy/rebate scheme

Background

- Implemented in July 2011 (Amendment to the Excise Act)

  - ✓ Align our vehicle taxation system with the Maurice Ile Durable (MID) vision.

  - ✓ Modify our motor vehicle taxation system to reflect the Polluter Pay Principle and take into account the CO_2 emission standard in addition to the Excise duty.

  - ✓ **Under the levy/rebate scheme,** a motor car buyer pays an additional amount **as levy** per gramme of CO_2 per km emission **above a set threshold**. On the other hand, the buyer receives **a rebate** if the CO_2 emission value of his motor car is below the CO_2 threshold.

Review of the CO_2 levy/rebate scheme

CO_2 > 158 (150 as from 2013)g/km = Levy payable (LCO)
i.e Excise duty + LCO

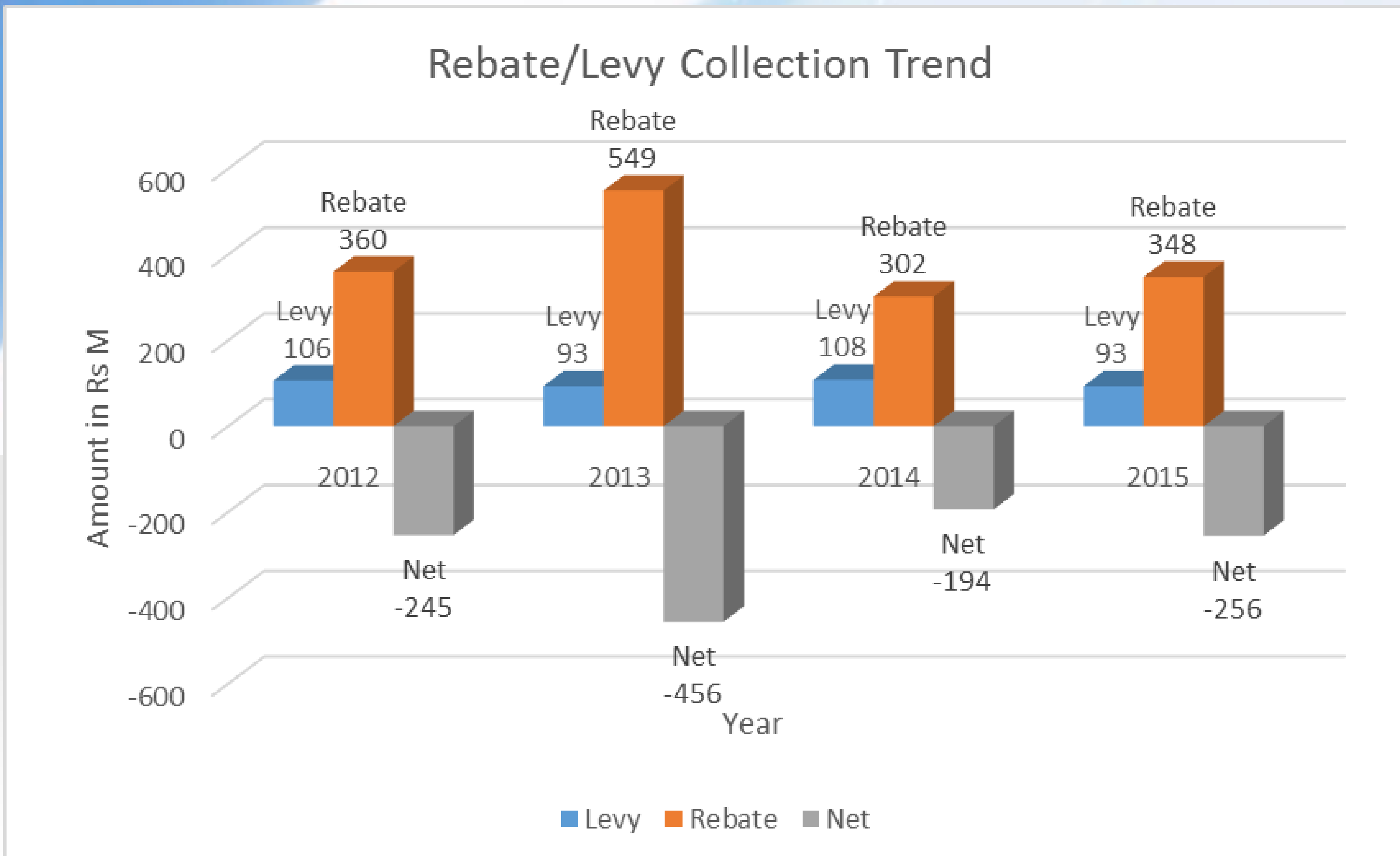
CO_2 < 158 (150 as from 2013)g/km = Rebate granted (RCO)
i.e Excise duty – RCO

Rate of CO_2 rebate/levy

Range CO2 g/km	Rebate Rate g/km	Levy Rate g/km
Up to 90	Rs 3,000 (reg UNECE 101) Rs 1,000 Other standard	
91-150	Rs 1,000 (reg UNECE 101) Rs 350 Other standard	
151-190		Rs 2,000
191-225		Rs 3,000
226-290		Rs 4,000
Over 290		Rs 5,000

Review of the CO_2 levy/rebate scheme

- Analysis of the scheme since its introduction



Options examined by the Working Group

- Lowering of the CO_2 threshold from 150 to 130 g/km;
- Abolishing the CO_2 rebate; and
- Possibility to converge to one standard of measurement for CO_2 emission.

Lowering of the CO_2 threshold from 150 to 130 g/km

- Overall, the net rebate of Rs 256 m will turn into net levy (to the Government) to the tune of Rs 146 m.

- Revenue neutrality was achieved for motor cars complying with the Regulations No. 101 UNECE standard when the CO_2 threshold of 150 g/km.

- If the CO_2 threshold is lowered to 130 g/km motor cars complying with the Regulations No. 101 UNECE standard will be contributing much more than those complying with other CO_2 standards.
- More than 50% of motor cars which were subject to rebate will now be subject to levy

Abolishing the CO_2 rebate

- Rationale for abolishing the rebate and keeping the levy: constant improvement in technology will lead to gradual lowering of CO_2 emissions emitted by cars. As such, too many cars will be granted rebate which will create an imbalance in revenue.

- In South Africa and United Kingdom, the CO_2 taxation is based on CO_2 levy which applies above a set threshold

- **Conclusion of the Working Group** :

  (i) the rebate scheme is not financially sustainable over the long run; and

  (ii) the financial disadvantages of the rebate scheme would outweigh the environmental benefits generated through the scheme

Standard of CO2 measurement

- **two sets of rates for rebates** were introduced in 2013:-

  (i) One set of rates for test based on European standard (**UNECE Regulation 101**) ; and

  (ii) Another set of rates for **all other types of standards**

- most of the new car dealers presented CO_2 test certificates based UNECE Regulation No. 101 at customs for imported new cars while virtually all second hand cars imported from Japan were cleared with test certificates based on Japanese JC08 Emission Test Cycle

Findings

- there is no formal mathematical equivalence between the two standards;
- no CO_2 testing facilities for UNECE Regulation 101 are available in Japan or Mauritius for conversion of CO_2 values from JC08 to UNECE standard or for counter-verification; and
- Worldwide Harmonised Light Duty Vehicle Test Procedure is being developed with a view to harmonizing the different standards of measurement for CO_2 into a single standard

MEASURE TAKEN IN 2016/2017 BUDGET

The Minister of Finance and Economic Development announced on 29 July 2016 in the Budget Speech 2016/2017, the suspension of the CO2 levy/rebate scheme.

" A number of operational and litigation issues have hindered the proper functioning of the CO2 levy/rebate scheme on motor cars, including different standards for the measurement of CO2 emission and unreliable CO2 values for the computation of the amount of levy or rebate. The CO2 levy/rebate scheme is accordingly being suspended"

A resolution was passed in the National Assembly to suspend the CO2 levy/rebate as from 30 July 2016.

Recommendations

- The U.N, E.U and car manufacturing countries are working towards the World Harmonised Light Vehicles Test Procedure (WLTP) in replacement of the various CO_2 emission standards

- The **CO_2 threshold** be reviewed based on WLTP; and
- the rebate granted to motor cars with CO_2 emissions below the set threshold be abolished

Replacement of the annual road tax by a tax fuel tax – Proposal from GFEI Committee

- **Features of Annual Road Tax**
  - Paid by the owner of the vehicle
  - Paid on a year basis
  - Collected by the National Transport Authority
  - Based on the type of the vehicle, engine size, weight (goods vehicle), seating capacity
- **Examples**
  - Motor cars : Rs 4,500- Rs 15,000 if in a company name, otherwise Rs 3,500 to Rs 13,000
  - Auto cycle: Nil, Motorcycle Rs 600 to Rs 1,000
  - Public buses: Rs 3,000 – Rs 4,500
  - Goods vehicles : Rs 3,000 to Rs 18,000
- **50% reduction for hybrid vehicles and if the vehicles are used in Rodrigues.**

Replacement of the annual road tax by a tax fuel tax – Proposal from GFEI Committee

- **Road tax to be included in the retail price of mogas and gas oil**
  - The mechanism to be based on “ Pay As You Drive” principle
- **Advantages**
  - easier, less costly to administer and require fewer human resources;
  - higher efficiency in revenue collection;
  - go in line with the so-called principle of “Pay-As-You-Drive” and thus fairer to vehicle-owners;
  - prevent fraudulent practices (fake entries, modifications of engine capacity with a view to pay less road tax); and
  - contribute to reduce pollution, traffic jams, road accidents and other road problems by discouraging the use of private cars

- **Disadvantages**
- Weight of taxes and non-operational charges on the prices of mogas and gas oil is very high. The tax burden will increase from 65% to 68%
- Use of verification of documents (fitness, insurance cover)
- No distinction between different categories of vehicles which will translate into higher running costs for buses, goods vehicles and taxes- may lead to public outcry
- Use of mogas and gas oil in other sectors – outboard motors
- Electric cars –outside the scope

Financial Analysis

- **Private Cars < 1,600 cc:** Average fuel consumption is 8.5 litres per 100 Km ; average annual distance of 15,000 Km; annual fuel consumption would be 1,300 litres: Rs 6,240 compared to Rs 4,000; <u>average increase of 56 % in the costs</u>
- **Bus:** MVL is Rs 3,000 or Rs 4,500 yearly depending on cylinder capacity: 34 litres for 100 km; annual operation of over 50,000 km. Increase in fuel cost Rs 42,000. leading to increase in bus fares with repercussions on the free travel scheme and refund of fares to government officers and other employees. <u>Compared to present rate of MVL, the increase will be between 10 -14 times more</u>
- **Other:** same conclusion for other vehicles, except for 4X4 and other pick-up types, ie the most polluting ones
- **RECOMMENDATION : NOT TO GO AHEAD**

Tax incentives to purchase cleaner and greener vehicles

Type of Tax/ Current Tax Regime	Recommendation of the Committee	Changes made in 2016/17 Budget
Registration duty		
Conventional motor vehicles: Normal rates	No change	No change
Hybrid vehicles: 50% reduction in rates	No Change	No Change
Electric vehicles: 50% reduction in rates	No Change	No Change
Annual Road Tax (Motor vehicle Licence)		
Conventional motor vehicles: Normal rates	No change	No change
Hybrid vehicles: 50% reduction in rates	No Change	No Change
Electric vehicles: 50% reduction in rates	No Change	No Change

Type of motor car and cylinder capacity (c.c.)	Rates prior to Budget	Committee Recommendation	Budget 2016/17
Conventional motor cars:			
Up to 550 c.c.	15%	No change	0%
551 – 1,000 c.c.	55%	No change	45%
1,001 - 1,600 c.c.	55%	No change	50%
1,601 – 2,000 c.c.	75%	No change	75% (no change)
Above 2,000 c.c.	100%	No change	100% (no change)
Hybrid motor cars:		40 % reduction in rates	30 basis point
Up to 1,600 cc	55%	33%	25%
1,600 - 2,000 cc	75%	45%	45%
> 2,000 cc	100%	60%	70%
Electric cars:		40 % reduction in rates	
Up to 180 Kw	25%	15%	0%
Above 180 Kw	25%	15%	25% (no change)

IMPACT OF MEASURES TAKEN IN BUDGET 2016/17

Year	Total Number of Vehicles registered during the year	Share of cars (all types of cars)	Share of hybrid and electric cars to total number of vehicles	Share of hybrid and electric cars to total number of cars
2011	20,463	46.8%	0.8%	1.6%
2012	24,654	49.6%	1.6%	3.2%
2013	25, 371	54.2%	2.7%	5.0%
2014	25,556	55.0%	1.7%	3.1%
2015	25,149	60.3%	2.4%	4.0%
2016	25,766	59.1%	5.3%	8.9%
2017 (Jan –Apr)	8,900	57.1%	7.4%	12.9%

Scrapping of motor cars above 30 years old

Age composition of cars, dual purpose vehicles and double cab pickup 2016		
Age group	2016	
(Years)	Number	%
< 5	107,691	42.2
5 < 10	71,830	28.1
10 < 15	30,315	11.9
15 < 30	43, 863	17.2
≥ 30	1,500	0.6
TOTAL	255,199	100.0

RECOMMENDATIONS

- **Financing**
  - introduce a fee/levy on each car imported to be used for financing the scrap motor car scheme; and
  - to introduce a grant to the owner who deregisters a car above 30 years old and buys another one which is less than 5 years or to grant a 50% waiver on registration duty upon purchase of another car of less than 5 years.
- **Scrapping system**
  - Regarding the removal, collection, dismantling, recycling and export of old vehicles, the Solid Waste Management Division puts in place a scrapping system for motor cars after the coming into full operation of the E-waste management system.
  - The EU directive 2000/53/EC be used as a guide regarding the environmental aspects, including the technical requirements for scrapping.

Thank You