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Turmoil on the Automotive Market: Insight Perspective

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Abstract

Over the last years the Romanian automotive market suffered numerous turmoil, both from the economic global context, but also from internal taxing measures, from each the most imposing is the polluting/first registration/automotive tax. After analyzing the impact and evolution of the tax on the automotive market we propose alternative solutions.

Key words: automotive, EU, tax, pollution

1. Introduction

The seeds of the "automotive tax" go back to 2006. Following, in Autumn a Surveillance Report from the European Commission cautioned the Romanian Government concerning the intended automotive tax. However, the Romanian authorities went along with their original plan and on January 2007 the Tax Code introduced the Auto Tax that had to be paid by all the new registered cars. Not on few cases the tax overlapped the car price. Two months later, in March, the European Commission initiated the Infringement Procedure against Romania. The Commission argued that the regulation is highly discriminatory for the second-hand automotives imported from the European Union and specifically asked that the taxing system change. Due to the insufficient efforts of the Romanian authorities to that matter, in December 2007 the European Commission initiated the second phase of the Infringement procedure, the forerunner of bringing Romania to the European Court of Justice. In that phase Romania got a fully motivated report from the Commission also containing recommendations regarding the manner of the tax changing. In the case that Romania did not accomplish the requests the European Commission had to bring Romania to the ECJ.

2. "Polluter Pays" vs. "Wealth pays off"

By March 31 2008 the Romanian Government worked on a new version of the auto tax that included the calculation regarding the gas emissions. This spreadsheet was approved in April 21 2008 by the Ordinance 50/2008 concerning the so named "automotive pollution tax" that inured in July First 2008. All the incomes from this tax went to the Environment Ministry. Probably the strangest thing about that form of the tax was that, also it was called "pollution tax" the tax was bigger for the new, less polluting cars and smaller for the older, more polluting ones. This led to a worsening situation for the new cars sales as the Producers and Importers Automotive Association mentioned that is virtually a catastrophic policy to undermine the changing of the automotive park. Due to the numerous alarming signals from the automotive market in December 2008 the Government decided to triple the tax for the old cars bought after December 15, 2008 and, also excluded from the tax the cars equipped with Euro 4 engines and under 2000 cmc engines. This new framework raised the tax for the new cars whilst lowering it for the older used cars. The Producers and Importers Automotive Associations stated that it is virtually a catastrophic policy to reduce the tax for the older cars and this kind of strategy does nothing but sub mining the Car Renewal Program as is responsible for the descended trend of new car sales. Ten days later a new worksheet appeared that came to life in February 20, 2009. The new Tax was smaller than the tripled one and

doubled compared to the July 2008 form. The smallest tax was around 200 Euro for the newest used cars whilst the biggest came close to 15 000 Euro for the extremely old, big motor cars. The Ordinance also imposed that those who had bought or firmly ordered an automotive before December 15th 2008, but didn't registered it yet, had 20 more days to gather the documentations in order to pay the tax before the triple from December. In March the Environment Ministry stated that the tax is about to be changed with an annual tax considering the CO2 emissions.

A letter of notification coming from the European Commission in June 25th, 2009 requested Romania to again modify the legislation concerning the Auto Tax. The Commission considered that suspending the tax for some automotives while imposing a bigger tax for the used cars coming from the European Union was discriminatory and protective for the national auto industry. The Producers and Importers Automotive Association considered the request a little bit odd given that the infringement procedure against Romania was closed in 2009. The EC didn't approve the exception of the new Euro 4 cars having motors under 2000cc. Furthermore, the Romanian Government asked that the EC accept a six months prolonged exception for the new cars by the end of June 2010, but this was denied and the exception was raised started from 2010. However the EC accepted that for 45 more days, this type of cars could be registered without paying the Auto Tax, but only for the ones bought in 2009 that weren't registered yet.

Starting February 2010 the exception ended and for all the cars, including the new Euro 4 ones the Tax became mandatory. The Environment Ministry announced his intention to raise the Tax for the used cars and in November it was also decided that starting January 1st 2011 the tax was to be paid a as well for the Euro 5 cars.

European Union Court of Justice decision from April 7, 2011 stated that although the computing algorithm is basically correct, the First Registration Auto Tax is in many cases to high discouraging thus the import of the cars from other member states. The Court also proved that in some circumstances the tax comes around 30% from the car price and this discourages the registration of second hand cars in Romania.[1] As a first reaction, the Romanian Authorities said that no changing of the Tax was necessary as the European Court of Justice decision referred to an outdate Auto Tax, but in may they complied, bringing also an unexpected news: the cars registered before 2007 will also pay the tax when resold.

The Government approved in august 31st the Law project that modified the Auto Tax. The Tax was reduced with about 25%, giving the possibility of refund for those who paid, starting July 1st 2008, a bigger Tax. It was stated that the Pollution Tax was to be paid once both for the new cars and the used ones first registered in Romania regardless the automotive was produced in Romania or elsewhere, and also for the cars registered before 2007 for which such a Tax wasn't paid.

3. Automotive sales evolution:

Year	New cars	Used cars
2007	312 532	123 842
2008	285 504	300 885
2009	116 016	312 900
2010	94 541	214 606
2011	81 709	94 488
2012(1st S)	33 343	73 729

Source:APIA, Statistical Bulletin

Highly criticized and extremely justified the auto tax had several cornerstones. In the beginning, the government argument relied in a well known principle that says: "The polluter must pay", that served them well for a while, and then the idea of "an older car has less lifespan and thus it pollutes less than a new car, with a bigger lifespan" was brought to attention. The European Commission said in at least two occasions that the tax was discriminatory and contravened the

[1] This Deccission came as a response to the Romanian Judges from Sibiu dealing with a case of "overtaxing"

fundamental principle of "free circulation" within European Union. There were voices saying that the authorities were trying in fact either to protect and help Citroen (the Prime Minister of that time, Calin Popescu Tariceanu owned when of the importing companies of that brand), or Dacia in the detriment of the other European made cars. It seems quite hilarious now one of the auto tax father's statements: "not the tax is the issue, but its name" (Vladescu).

4. 2012, a new old perspective

On January 10, 2012the New Law concerning the polluting emissions was published in the Official Bulletin and was enforced three days later. On January 11 the Government approved the applying methodology concerning the Tax and starting the 16th of January those that paid a bigger tax could ask a refund from ANAF. On January 30, 2012 the Government suspended until the end of 2012 the article saying that even the cars registered before 2007 must pay the tax at the first resale.

In May 2012 the change of the Environment Ministry leads to a change of perspective and the "environment stamp" comes as option.This mid year statements of the authorities saying that in Romania there are 6 million people in poverty and any type of tax must bear this fact of the matter. Two months later, the statements were more shadowed in the need of a "European laws and principles harmonized tax, considering as well the economic situation of the Romanians".

Conclusions

On the other hand Romania has over 1 billion compensations for the ones that paid one of the tax's forms between 2007 and 2012.

The strangest thing of all is maybe the fact that not once, over these years, the Romanian authorities thought of changing the essence of tax it self by, let us say, introducing it in the fuel tax.

As every single form of the auto tax determined controversy, was nevertheless judged for being discriminatory or property restraining, a viable solution was changing its essence.

Everyone agrees that more or less all the cars pollute. However no one can say that a car that is not driven on the roads pollutes. All the cars need fuel in order to work, so a simple judgment is: if it has fuel, it is on the roads so, it pollutes. That means that the tax should not be in the car price but in the fuel price. I can already hear voices saying that one more tax in fuel means a more expensive fuel and in the end chain dearer. Let us think it through: how many times did the fuel price got high this year; was it connected to the reality or, mainly discretionary.

In one year the Romanians need 6 billions liters of gas and diesel for their cars. Let us suppose that the environment tax in the price of fuel is 10 bani for every liter. A simple computing shows us that the authorities can gather 150 millions over one year. Furthermore, a 50 bani per liter environment tax can mean one thousand million in only one year, that is in fact the sum of the compensations Romania must pay for 5 years of monstuos environment/auto tax.

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