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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

Strengthening the Single Market
by removing cross-border tax obstacles for passenger cars

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1. INTRODUCTION

More than 230 million passenger cars circulate on European roads. Each year, more than 13 million new passenger cars are registered in the European Union, and about 3 million used cars are transferred between Member States, of which up to 1 million are linked to people migrating from one Member State to another[1].

Car taxation is an important revenue source for all Member States. On average, registration and circulation taxes accounted for 1.9% of all tax revenues in 2010[2]. The actual level and design of such national tax regimes is therefore of specific interest for national tax authorities as well as for car producers and citizens and enterprises owning and using a car.

The issues of double or multiple taxation[3] and of potential tax discrimination in case of cross-border transfers of passenger cars are of concern to EU citizens and service providers. In its 2010 EU Citizenship Report[4] the Commission announced that it would work on solutions to double registration taxes on cars as this can be an obstacle to EU citizens' right to move freely in the EU and in its Communication 'Removing cross-border tax obstacles for EU citizens'[5] the Commission pointed out that, when buying a car in a Member State other than that of their normal residence or when transferring a car to a Member State other than that in which it is registered, EU citizens frequently face excessively complex re-registration procedures and may have to pay registration and/or circulation taxes twice.

The present Communication focusses on the tax aspects in cross-border situations. High registration taxes on cars transferred between Member States in the context of the transfer of permanent residence may work as an obstacle for potential migrants. Also, the multitude of different and un-coordinated thresholds and technical triggers for different levels of taxation such as engine size, fuel used or CO_2 emissions (be it for registration or circulation taxes) further complicates the already diverse market conditions for car producers triggering a tax-induced fragmentation of the Single Market, which results in tax-induced cross-border trade as well.

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1 Source: Eurostat, ACEA and Öko-Institut.

2 Taxation trends in the European Union, 2012 edition, Eurostat, European Commission.

3 According to the Court of Justice of the European Union, the successive levying of a registration tax in two Member States does not necessarily constitute a double taxation in its narrow sense as the taxable event is the right to use the vehicle on national roads (See section 3.1. of the Commission Staff Working Document accompanying this Communication for more details).

4 EU Citizenship Report 2010 'Dismantling obstacles to EU citizens' rights', COM(2010)603 of 27.10.2010, see action 6.

5 COM(2010)769 of 20.12.2010.

The Commission has taken initiatives and put forward legislative proposals to solve these problems on three occasions, in 1975, in 1998 and in 2005[6]. The 1975 proposal resulted in the adoption of Directive 83/182/EEC[7], providing tax exemptions for the temporary introduction of a motor-driven road vehicle into a Member State from another Member State. The 1998 proposal aimed at introducing a mandatory exemption when private motor vehicles were *permanently* brought into a Member State from another Member State in connection with the transfer of normal residence of a private individual. The third proposal aimed at abolishing registration taxes altogether and replacing them by annual circulation taxes after a transitional period of 10 years, and to 'green' circulation taxes. The two last proposals have not so far received the required unanimous support of the Member States.

It should be noted that, currently, there is no harmonisation at EU level of car registration and circulation taxes. This means that the evolution of vehicle taxation in the EU has so far depended to a large extent on the jurisprudence of the Court of Justice of the European Union (hereafter 'the Court').

Despite the jurisprudence of the Court and legislative actions, it has not been possible to overcome the fragmentation of national tax schemes or to fully and systematically remove double taxation and the potential tax discrimination of cars transferred by citizens from one Member State to another. In the present Communication and the accompanying Staff Working Document (hereafter 'the SWD') the current situation in the field of passenger car[8] taxes within the Union is described and re-assessed in order to identify best practices that Member States should be able to implement within the existing legal framework.

This Communication and the SWD aim at clarifying the EU rules on vehicle taxation, explaining rights and obligations of Member States, citizens and businesses. From the questions put to the Commission, it appeared that citizens and businesses are often not sufficiently aware of or they do not understand their rights and their obligations in various situations, in particular when moving vehicles temporarily or permanently from one Member State to another. The SWD, in particular, aims at giving an overview of the rich case law of the Court on vehicle taxation and illustrates secondary legislation applicable in this field.

The procedures related to re-registration are specifically addressed in the Commission proposal for a Regulation of the European Parliament and of the Council simplifying the transfer of motor vehicles registered in another Member State within the Single Market[9]. The solutions proposed in the present Communication for certain situations of use of cars in a Member State other than the one of registration may have to be reconsidered at a later stage in the light of the outcome of discussions on that proposal. That proposal does however not concern taxation and Member States remain free to exercise their power of taxation with respect to motor vehicles, in accordance with Union law.

[6] OJ C 267 of 21.11.1975, p.8, COM(1998)30 of 10.2.1998 and COM(2005)261 of 5.7.2005.

[7] Council Directive 83/182/EEC on tax exemptions within the Community for certain means of transport temporarily imported into one Member State from another (OJ L 105, 23.4.1983, p.59).

[8] While this Communication deals with the taxation of passenger cars only (M1 vehicles), the arguments brought forward could be used by analogy for other road vehicles, notably light duty vehicles (N1 vehicles) or motorized two-wheelers.

[9] COM(2012)164 of 4.4.2012.

2. CURRENT RULES ON REGISTRATION AND CIRCULATION TAXES ON PASSENGER CARS

Given that no secondary tax legislation in this area has been adopted so far apart from Directive 83/182/EEC, Member States are free to apply taxes other than VAT on passenger cars as long as these taxes are in line with the general principles of EU law.

2.1. Registration taxes

The term 'registration tax' used in this Communication includes all kinds of taxes currently linked to the registration of a vehicle, regardless of their name (tax, excise duty, environmental bonus-malus scheme, etc.) but does not cover fees covering the administrative cost for registration of a vehicle or the cost of technical inspections.

EU legislation

Directive 83/182/EEC covers temporary use in a Member State other than the Member State of residence. For vehicles for private use, it provides that their temporary use in a Member State shall be exempt from registration and circulation taxes provided the individual transferring the vehicle has his normal residence[10] in another Member State and the vehicle is not disposed of or hired out in the Member State of temporary use or lent to a resident of that State. This means that in situations other than those covered by the Directive, Member States are in principle allowed to levy registration and/or circulation taxes.

National legislation

At present, 18 Member States levy a registration tax on vehicles[11]. The tax base and level of taxation differ considerably between Member States[12]. Most common differentiators are the purchase price or value of the car, the fuel used (e.g. petrol or diesel), engine size or power and the CO_2-emissions of a car. Over the last years, many Member States have restructured the tax base of registration and circulation taxes to be totally or partially CO_2 based. National registration taxes are typically levied once in the lifetime of a car, except in Belgium, where they are levied each time the (private) ownership of a car changes.

Most of the problems that arise concerning passenger car taxation relate to one of the following cross-border scenarios:

- Case 1: A citizen moves his car to another Member State upon the transfer of his normal residence. Although Council Directive 2009/55/EC of 25 May 2009 on tax exemptions applicable to the permanent introduction from a Member State of the personal property of individuals[13] does not apply to vehicle registration taxes, some Member States provide for an exemption in this situation. Member States levying a registration tax must apply a depreciation factor in line with the reduction in the economic value of the imported car. In case of a permanent de-registration and export of a car, some Member States grant a

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10 The Directive defines 'normal residence' as the place where a person usually lives, that is at least 185 days in each calendar year, because of personal and occupational ties, or, in the case of a person with no occupational ties, because of personal ties which show close links between that person and the place where he is living.

11 See Annex I to the SWD.

12 More information on the tax base and the level of taxation is available in the database 'Taxes in Europe'. http://ec.europa.eu/taxation_customs/taxation/gen_info/info_docs/tax_inventory/index_en.htm.

13 OJ L 145, 10.6.2009, p. 36.

refund of part of the registration tax already paid, typically also applying some kind of depreciation factor.

- Case 2: A citizen brings his car permanently to his second residence (e.g. a holiday home) in another Member State and has to pay registration tax again. Some Member States at destination exempt this transfer. Also, some Member States at departure grant a refund of part of the registration tax.
- Case 3: A citizen lives in one Member State and uses a company car registered by his employer or by the company of which he is an administrator in another Member State. The Member State of registration may levy a registration tax. The Member State of residence of the employee or administrator may only levy a registration tax if this is the Member State where the car is essentially used on a permanent basis.
- Case 4: A citizen lives in one Member State and uses a leased car registered by a leasing company in another Member State. The Member State of registration may levy a registration tax. The Member State of residence may also levy a registration tax which is proportional to the duration of the leasing contract.
- Case 5: A citizen lives in one Member State and uses his car frequently in another Member State to visit his partner or family. The second Member State may only levy registration tax if the partner or family uses the car regularly.
- Case 6: A student is going to temporarily study in another Member State or a worker is seconded by his employer to another Member State. For this period, both use their car primarily in their country of studies/secondment. In these cases, the Member State of study/secondment may not levy a registration tax.
- Case 7: A car rental company that has registered a car fleet or part of it in one Member State would enter into one-way rental contracts or would like to move part of this car fleet to another Member State without having to pay registration and circulation taxes so as to better manage seasonal peak demand.
- Case 8: A citizen or car dealer of a Member State that levies a registration tax sells a car to a citizen or company established in another Member State where it will have to be re-registered. In case of non-refund of the registration tax still incorporated in the value of the car there might be an 'over-taxation' in the first Member State as compared to cars that remain registered in that Member State until their end of life. However, some Member States applying a registration tax also provide for a partial refund of the tax already paid in case passenger cars are de-registered and exported by professional dealers, i.e. without the car owner actually emigrating.

Given the sparse legislation at EU level in relation to car taxation, the Court has been called upon to decide in a number of cases and has set out several principles which Member States must respect when applying registration taxes in situations such as those described above. However, while this jurisprudence provided solutions to the discrimination between domestic and imported products, the issue of double taxation occurring in situations such as those described in cases 1, 2 and 8 was not addressed.

2.2. Circulation taxes

The term 'circulation tax' used in this Communication includes all kinds of taxes linked to the circulation of a car in the territory of a Member State, regardless of the name of the tax, excluding tolls, vignettes and excise duties on fuels.

Typically, circulation taxes are levied annually by the Member State in which a passenger car is registered and are differentiated according to engine size or engine power, the fuel used and/or the environmental performance of the car. In case a car was de-registered or changed ownership in the course of the period for which the circulation tax has been paid, a pro-rata refund is applied. Thus, the problem of double taxation in case of a cross-border use of passenger cars is limited.

3. THE REMAINING PROBLEMS

3.1. The problem of double taxation

Even though the jurisprudence of the Court has solved a number of issues in the field of the levying of registration taxes in the country of destination, a number of problems remain in various situations.

Registration taxes

Citizens may be faced with double taxation when moving a car permanently to another Member State or when primarily using it in a country different from the country where the car has initially been registered.

Double taxation notably arises where citizens are migrating from a Member State that levies a registration tax without providing for a refund in case of a transfer of a car to another Member State that applies a registration tax without providing for a tax exemption in such a case. Double taxation may also occur in cases where a car is registered in a Member State applying registration taxes and is primarily (temporarily or permanently) being used in another Member State also applying registration taxes (cases 3 to 5 above).

As EU integration proceeds, more and more people move from one country to another to live, study, work or retire, or have holiday homes in other Member States, leaving their (second) car there[14]. Although the EU rules prevent double taxation in some specific situations the problem of double taxation may still arise in many other situations.

Circulation taxes

Double taxation in the field of circulation taxes is not to be expected as they are charged annually and are only charged pro rata, i.e. they are typically refunded in case of deregistration.

3.2. Other challenges

3.2.1. The lack of information on the application of car registration and circulation taxes in cross-border situations

Citizens often complain not only about double taxation but also about the complexity of foreign tax rules and the difficulties in obtaining information on those rules and procedures. These difficulties are partly due to language barriers.

[14] The number of citizens that reside in a Member State other than their Member State of origin reached 12.8 million in 2011 The number of cross-border workers (citizens working in another Member State than the Member State of residence) has reached around 1 million in 2010. A specific category of 'cross-border workers' are the persons living in one Member State and using a motor vehicle registered by their employer in another Member State. There are no data available for this category but generally company registrations accounted for about 50.5% of the 11.6 million new passenger cars registered across 18 EU Member States in 2008.

3.2.2. *The proper application of EU rules in case of temporary or occasional use of a car*

The proper application of Directive 83/182/EEC on the tax treatment in case of temporary or occasional use of a car in a Member State other than the one of registration has been the subject of numerous Court decisions and infringement procedures (see section 3.1. of the SWD). Other situations in which the Court has been called upon to decide concern cross-border leasing, company cars used by an employee or an administrator living in another Member State and cars borrowed by a resident of a Member State other than the one of registration (see sections 3.4. to 3.7. of the SWD). By now, the case law of the Court has crystallised important principles that have clarified the taxing power of Member States, while protecting the rights of EU citizens. It seems, however, to be a challenge for some Member States to bring national legislation and practices in line with these developments. The Commission is continuously engaged in monitoring the compliance of Member States' legislation with the case law of the Court in this field.

3.2.3. *The case of cross-border car rental*

Car-rental companies rent out motor vehicles for a relatively short period of time. Car-rental fleets are usually very new, as vehicles remain in the fleet for about 6-9 months and are subsequently bought back by manufacturers. The EU passenger car fleet for short-term rental is estimated at 1.4 million vehicles. A car rental company providing services across the border may face two challenges:

(1) The first is the repatriation of a car in case of a one-way rental[15]. Member States often do not allow to re-rent the car to a resident of a country in which the one-way rental ended without re-registration and payment of registration tax. Therefore the car can often only be returned if the rental company finds a customer residing in the registration country, or if the car is returned by an employee of the rental company or is repatriated by trucks. Apart from repatriation costs there is the revenue forgone for the period the car cannot be rented out. As a consequence a one-way rental to another Member State is expensive, often to the extent that rental firms do not offer this possibility to customers.

(2) The second is that it is difficult for car rental companies to cope with seasonal peak demand in certain Member States by temporarily moving rental cars from one Member State to another. The costs of deregistering in the Member State of origin and registering the car and paying registration tax in the Member State of destination and the revenue forgone while these procedures are ongoing - and the other way round after a few months - are too high to justify the relocation of a car for a few months. As a result, it is often not possible for car rental firms to meet peak demands for rental cars in certain Member States during the touristic season, while at the same time cars are standing idle in other Member States. Therefore car rental firms would like to be able to transfer part of their fleets to other Member States for a certain number of months each year.

[15] Article 3 of Directive 83/182/EEC obliges Member States to allow rental cars to be re-hired to non-residents with the view of being 'exported' if they are in the country as a result of a hire-contract that ended in that country. They may also be returned by an employee to the Member State where they were originally hired, even if the employee is a resident of the Member State of temporary importation. Article 9 of The Directive allows Member States to introduce and/or maintain more liberal arrangements, e.g. permitting these vehicles to be re-hired to a resident of their country with a view of re-exportation. However, not many Member States make use of this possibility.

Both challenges implicitly restrict the freedom to provide services across borders, increase costs for rental companies and for their customers, or limit the latter's choice of services as such cross-border services may not even be provided at all. As regards the formalities and costs linked to de- and re-registration, a solution is provided in the proposal for a Regulation simplifying the transfer of motor vehicles registered in another Member State within the Single Market, referred to in section 1. The proposal provides that car rental companies would only be required to register their vehicles in the Member State where they have their normal residence.

3.2.4. Tax-induced market fragmentation

Most Member States levying registration or circulation taxes based on the technical specifications of a car do so by differentiating according to technical performance (e.g. engine size or power) or the amount of CO_2 emissions[16]. Often, the thresholds have been set according to national market characteristics or national policy ambitions valid at the time of their introduction, and also having net revenue implications of successive reforms in mind.

Car manufacturers have - wherever economically meaningful - adjusted their supply to these design features of car taxes, notably by supplying cars to their main markets that remain just below certain thresholds, such as providing cars with engine sizes of 1599 cm^3 or 1999 cm^3. However, these thresholds differ from country to country. This absence of harmonisation, thus, triggers a 'technical' fragmentation of the Single Market. As a result, potential economies of scale of a Single Market with around annually 13 million new cars being registered cannot be exploited in full, having a negative impact both on the competitiveness of the industry and the effectiveness of incentive schemes. The cost of cars is also raised as a result. This is because a fragmented system induces car manufacturers to waste resources on fine-tuning cars to different thresholds, and reduces the cost-effectiveness of European climate policy. This fragmentation in car taxes was clearly recognised by the CARS 21 High Level Group in 2012[17]. Car manufacturers have therefore called for harmonised CO_2-based car taxes. An initiative by the Commission for harmonisation in this respect has however so far not received unanimous support by Member States[18].

4. POLICY OPTIONS AND BEST PRACTICES

The Commission considers the abolition of registration taxes and integrating them (in a revenue neutral way) into the circulation taxes as well as the harmonisation and 'greening' of car taxation as the best solution to the remaining problems identified above. However, as the 2005 proposal has so far not been adopted, it is appropriate to explore immediate solutions to the problems identified in this Communication.

4.1. The problem of double taxation

So as to avoid double taxation or 'over-taxation' in case an EU citizen permanently moves a car to another Member State (cases 1, 2 and 8 of section 2.1), there exist in principle three policy options:

16 See Annex IV of the SWD.

17 The CARS 21 Final Report, adopted on 6 June 2012, is available on the following website: http://ec.europa.eu/enterprise/sectors/automotive/files/cars-21-final-report-2012_en.pdf.

18 See the 2005 proposal referred to in footnote 6.

- The Member State of destination totally exempts the 'imported' car from registration taxes.
- The Member State of departure refunds the part of the registration tax already paid still incorporated in the value of the car (the residual tax)[19].
- The Member State of destination reduces the domestic tax due by the tax already paid in the Member State of departure (imputation system), on top of the depreciation to be applied when taxing used instead of new cars.

The following table shows which of the 18 Member States applying a registration tax already apply options 1 and/or 2:

	AT	BE	CY	DK	EL	ES	FI	FR	IE	IT	HU	LV	MT	NL	PL	PT	RO	SI
1.			X[1]		X	X	X		X	X				X	X	X		
2.	X	X		X		X	X							X	X	X	X	X

[1] for the excise duty on cars but not for the registration tax

The first option might have some negative budget implications for Member States levying high registration taxes. This high-tax status, however, might also discourage inward migration and inward cross-border working arrangements, potentially negatively affecting their economies. Also, this option puts immigrants coming with their (used) car in a somewhat privileged position as compared to residents. However, since migration itself typically causes high social and economic costs for the immigrant, the 'tax privilege' will only partially compensate for this.

Under the second option, the Member State of departure 'loses' the residual tax. But, as a result of the refund, the car leaves the Member State 'tax neutral'.

Under the third option, the car would factually be exported tax neutral from the country of departure. It would be the Member State of destination that foregoes tax revenues corresponding to the residual tax. The negative budgetary implications of applying such an imputation system would be less pronounced than the implications of applying an exemption scheme.

The best regime for citizens would be a depreciation-based refund system applied by the Member State of departure combined with an exemption from registration tax in the Member State of destination. In this situation, the ultimate tax burden in the first Member State would always be proportional to the period of use of the car in that Member State (meaning no over-taxation would occur) and no tax burden would occur in the second Member State. The second-best regime would be a combination of refund and imputation schemes. This regime is less beneficial for the citizens as they would not or not fully benefit from such imputation in case they moved to a Member State not charging or charging a lower registration tax.

[19] Member States granting such a refund apply it under different conditions (see Annex II to the SWD). Typically the refunds are not only given to citizens changing residence with their cars but also in case cars are de-registered and exported by car dealers or citizens selling their cars abroad.

4.2. Other challenges

4.2.1. The lack of information

By means of this Communication and SWD, the Commission aims at clarifying the EU rules on passenger car taxation taking into account the principles developed by the Court. It is the responsibility of the Member States to provide detailed information to citizens and businesses on their application of national taxes and on how they have implemented the principles developed by the Court. It should be available in at least the language(s) of the Member State and the key issues (e.g. in the form of 'Frequently Asked Questions') also in the languages of the citizens that mostly move to this Member State, and in English for all others. The information should be easily accessible on the Internet, adequate and up-to-date and should contain a contact point for more information.

4.2.2. Temporary transfer of a passenger car to another Member State (cases 3 to 7 of section 2.1.)

As pointed out in section 3.2.2., it may be a challenge for Member States to bring their car tax legislation in line with the principles laid down in the jurisprudence of the Court. The SWD, which the Commission intends to update regularly, should provide guidance to Member States. Moreover, discussions with Member States in a technical Working Group could be useful to identify best practices for certain situations.

Already now, some Member States allow that vehicles registered in another Member State are for a relatively short period (maximum two weeks, a month) primarily used by their own citizens without the obligation to pay registration and circulation tax provided certain conditions like an administrative notification are fulfilled. But even this looks quite rigid at times of increasing international mobility and differentiating mobility patterns. Given the recent jurisprudence of the Court on borrowed cars[20], Member States should consider allowing a certain period of use of vehicles registered in another Member State by a citizen without the obligation to pay registration tax, provided certain conditions set to avoid evasion or abuse are fulfilled.

4.2.3. The car rental sector

Some Member States have already taken measures to overcome the problems described in section 3.2.3.:

(1) As regards the repatriation of a one-way rental car, some Member States allow that vehicles registered in another Member State which arrived in their country as a result of a hire contract, are hired for a certain period to a resident without the obligation to pay registration and circulation tax if certain conditions are fulfilled[21]. This makes it easier to supply one-way rentals although the conditions vary considerably.

(2) One Member State allows the temporary transfer of rental cars registered in another Member State, for no longer than 3 months every year, without the need to pay the registration and circulation tax for these vehicles, allowing car-rental firms to cope more effectively with seasonal peak demands.

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[20] Judgment of 26 April 2012, joined cases L.A.C. van Putten, P. Mook, G. Frank, C-578/10, C-579/10, C-580/10.

[21] For more details see annex III of the SWD.

Member States applying more flexible arrangements in these two situations can do this on the basis of Article 9(1) of Directive 83/182/EEC. So far, there is no evidence that this flexibility has caused problems. Hence, the Commission suggests that the other Member States introduce similar arrangement, subject to the conditions set by them with a view to avoid any possible evasion or abuse. This would allow car rental firms to optimise the use of their fleets and to reduce costs and, hence, prices for final customers.

4.2.4. Tax-induced market fragmentation

Although the 2005 proposal has not received unanimous support of Member States, it should be recognized that a lot of Member States have since introduced environmental elements in their registration taxes and/or circulation taxes. However, even if Member States apply the same environmental elements, they often use different thresholds resulting in (sometimes huge) differences in the tax levied. Differentiations within car taxation should not be based on technology-specific criteria, such as engine size or engine power, but rely on objective, commonly available and policy-relevant performance data, such as CO_2 emissions. Moreover, the thresholds should be regularly updated to keep pressure to buy a clean and efficient vehicle. From this perspective it is suggested that Member States examine in a Working Group how the criteria they use as a basis for calculating registration and circulation taxes can be better coordinated, so that the technical fragmentation of the EU car market is reduced, economies of scale are exploited, and environmental goals are reached in a cost-effective manner. It is also to be noted that the Commission services are currently preparing guidelines for Member States wishing to introduce financial incentives in line with the European strategy on clean and energy-efficient vehicles[22].

5. CONCLUSION AND FOLLOW-UP

Mobility of citizens is steadily rising, thanks to European integration and as a result of business and growth models increasingly relying on an intensified international division of labour. Mobility can help to solve problems on local labour markets, increase the efficiency of markets and enhance economic growth. Free movement is also EU citizens' most cherished EU right and a cornerstone in the development of the EU. Double taxation in the area of vehicle taxation, high registration taxes upon transfer of a car in the context of migration and the lack of information on this may hinder cross-border mobility.

Even though the approach proposed by the Commission in 2005, namely the abolition of registration taxes and integrating them in a revenue-neutral way into the existing circulation taxes, has so far not been adopted, some Member States have already on a voluntary basis taken certain measures envisaged by the proposal, which the Commission welcomes. However, a number of problems which are incompatible with the idea of a real Single Market persist and therefore require a solution in the short term.

Hence, the Commission has identified and proposes to the Member States to apply the following best practices in the short term:

1. To ensure that taxpayers know their rights and obligations when moving to another Member State, Member States should provide adequate information on their application of registration and circulation taxes on vehicles in cross-border situations, including information on how they have implemented the EU legal framework

[22] COM(2010)186 of 28.4.2010.

described in this Communication and the SWD. To this end, a central contact point for taxpayers should be designated, to which a link can be provided on the website of the Commission.

2. To avoid double taxation and 'over-taxation' where citizens move a car permanently from one Member State to another, Member States that initially applied a registration tax should as a minimum grant a partial refund of the tax taking into account the depreciation of the car independently from whether or not the Member State of destination provides an exemption from registration tax, if any.

3. Member States should make full use of the flexibility offered by Directive 83/182/EEC to apply more liberal arrangements allowing for the temporary use of vehicles in Member States without application of registration and circulation tax. This relates, in particular, to rental cars registered in another Member State, but also to other situations of temporary or occasional use by a resident of a car registered in another Member State.

4. To take action to reduce the fragmentation of the EU car market caused by the divergent application by Member States of car registration and circulation taxes. The upcoming Guidelines on financial incentives for clean and energy-efficient vehicles also need to be taken into account.

After having received the opinion of the institutions to which this Communication is addressed, the Commission intends to set up a technical Working Group to discuss the issues above with Member States. As a result of this process, the discussions in the Council on the 2005 proposal could gain a new momentum. Revision of Directive 83/182/EEC could also be envisaged in order to take account of the extensive jurisprudence of the Court and to enhance transparency and legal certainty.