The Results of Mobility management and climate change

We have studied the welfare effects of company car taxation through increases in car expenditure, commuting and other private travel as well as car ownership. We have identified the increased car expenditure effect by examining the effect of having a company car on the market value of the household's most expensive car.

Our results for the Netherlands imply that, depending how other car taxes and external costs are accounted for, the tax treatment of company cars induces an annual welfare loss per company car ranging from €420 to €600 as a result of a shift towards more expensive cars.

The welfare loss because of increases in commuting and other private travel (including associated external costs) is about €180 per company car. The annual welfare loss per company car ranges therefore from €600 to €780.The estimated total welfare loss due to distortionary company car taxation for the Dutch economy is €470 to €612 million per year. Our finding that the welfare loss is mainly due to a shift towards more expensive cars rather than a shift towards more travel or car ownership.

Our results show, however, that current Dutch company car taxation reduces welfare, despite the high level of purchase taxes currently present. In most other European countries, car purchase taxes are lower than in the Netherlands, so our conclusion for the Netherlands that company car taxation is distortionary can be generalized to other European countries with similar company car tax rules.

Applying the assumptions as used for the Dutch economy, the European welfare loss due to distortionary company car taxation is in the order of €12 billion per year. Our study implies that the distortion caused by company car taxation in Europe is substantial.

One obvious conclusion of our study is that tax authorities must increase the tax on company cars. For political reasons, we advise the marginal tax to increase for cars above a certain value (e.g., a purchase price of €20,000). In such a way, the deadweight loss is reduced, while theincrease in the average taxation remains limited.

One important issue is whether it is sensible to favourably tax sustainable cars i.e. to reduce taxation of so-called sustainable cars compared to conventional cars. We find that the welfare losses of such a favourable treatment are substantial. A much more efficient way of increasing the use of sustainable cars is by increasing the tax on conventional company cars.