Subsidies for petrol and diesel company cars cost EU taxpayers €42 billion every year

The European Commission has committed to phase out fossil fuel subsidies - now it needs to act.

An ERM study commissioned by T&E

Company cars are seen as perks provided to employees as a part of their salary. While they are partially intended for work travel, they are also used privately -such as for commuting- to the benefit of the driver. T&E commissioned a study to ERM quantifying the subsidies that company car drivers receive for this private use. This is the first study of its kind that calculates these subsidies for every car model registered in Europe's six biggest car markets, rather than relying on archetypal averages or example models. The research has been reviewed by leading academics in each country.

FOCUS OF THE STUDY

WHAT IS A SALARY CAR SUBSIDY?

The tax benefits that companies and employees receive for buying and owning a car compared to driving it privately.

WHAT IS A FOSSIL FUEL SUBSIDY?

When the salary car tax benefits are given to petrol, diesel or plug-in hybrid cars.

WHAT TAXES ARE WE LOOKING AT?

The study looks at the most important corporate car taxes: value-added tax (VAT), depreciation write-offs, benefit-in-kind (BiK), and fuel usage benefits.

WHICH COUNTRIES ARE IN THE SCOPE?

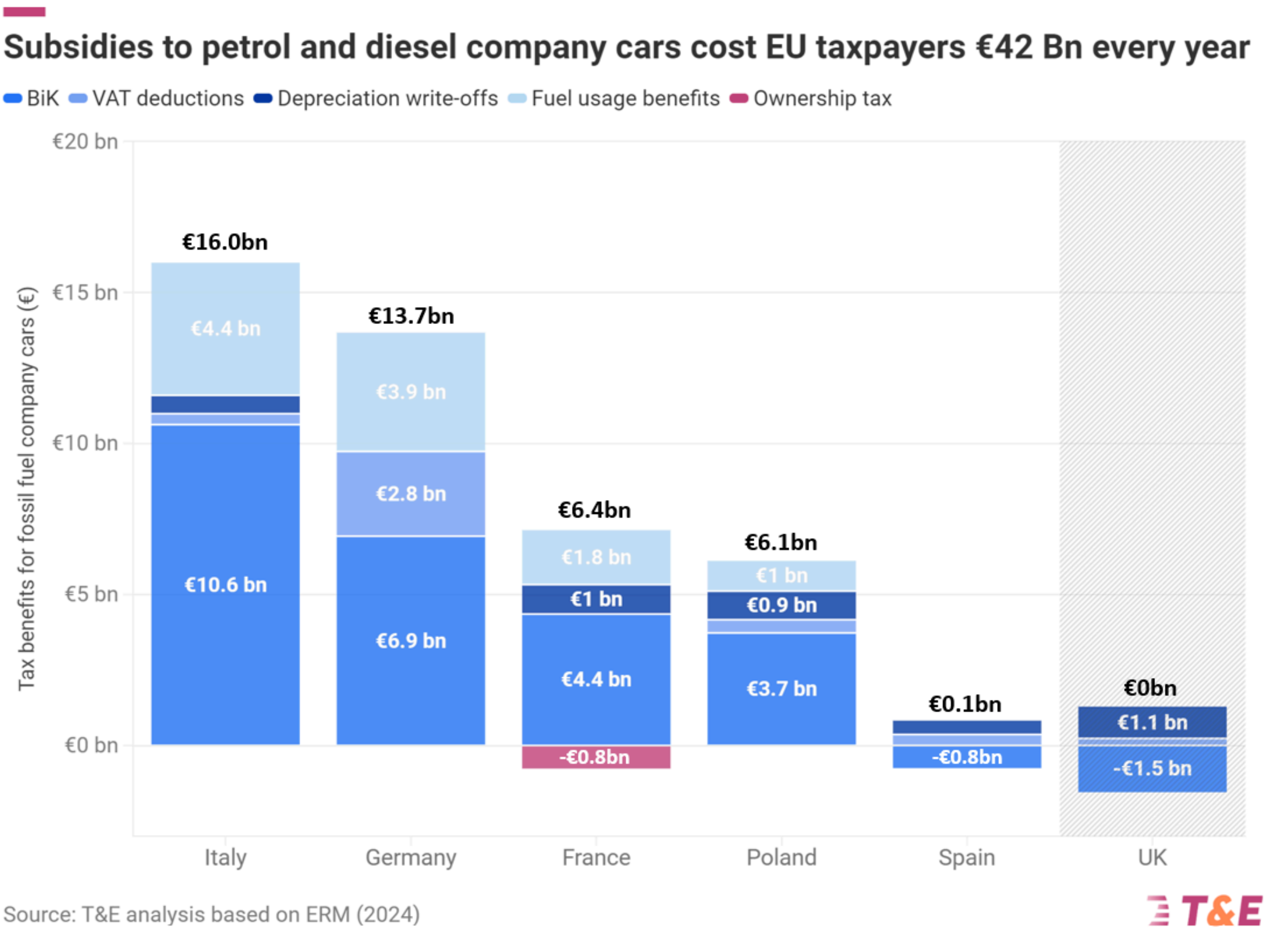
The study looks at the taxation systems in Europe's six biggest car markets: France, Germany, Italy, Poland, Spain and the UK.

Findings

Fossil fuel company car drivers in the EU benefit from €42 billion in subsidies every year

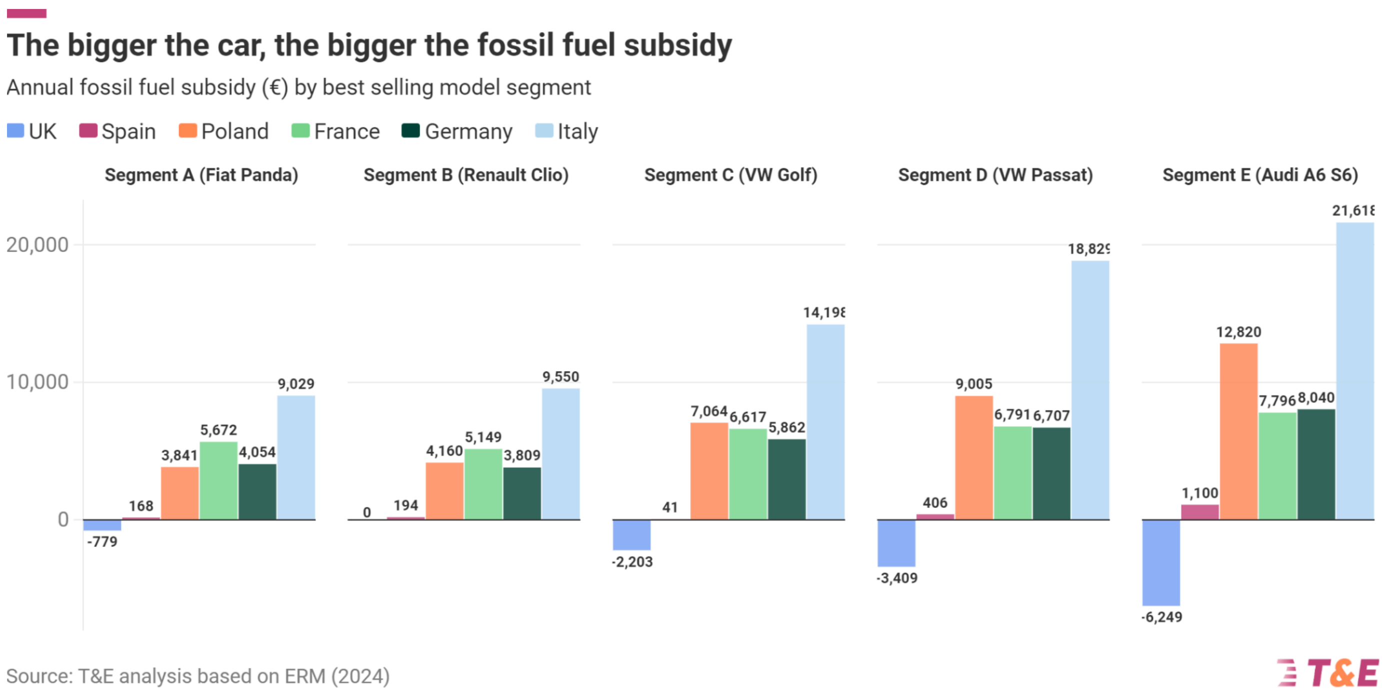
Very high fossil fuel subsidies are found in Italy, Germany, France and Poland. This is mainly due to significant benefit-in-kind (BiK) tax breaks for petrol and diesel company car drivers. This tax break overwhelmingly benefits the most affluent consumers, with company car drivers earning nearly double as much as the average European consumer.

The UK and Spain have a fairer tax system, with higher BiK rates counterbalancing tax breaks from depreciation write offs and VAT deduction for petrol and diesel vehicles. The UK specifically has a high BiK for polluting cars and a low rate for battery electric vehicles, which translates into a low fossil fuel subsidy and high corporate BEV uptake, reaching 21.5% in H1 2024. Spain has a relatively high BiK rate, but fails to incentivise companies to opt for electric cars, translating into a low corporate BEV uptake (at 3.7%).



€15 billion of the €42 billion subsidies go to polluting SUVs

Looking at the most sold petrol car per segment, company car drivers receive - compared to a private buyer - an average annual tax benefit of €6,800. This can go up to €21,600 for high polluting vehicles of segment E. The more CO_2 the car emits, the higher fossil fuel subsidy it receives.

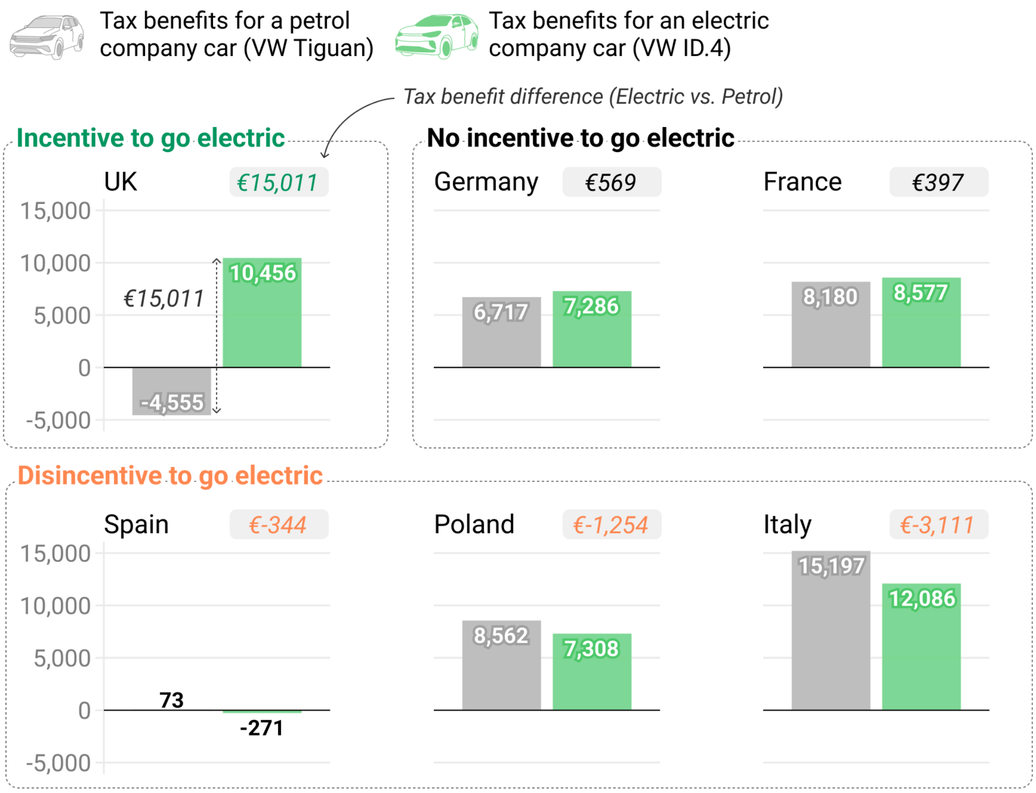


SUVs typically have much higher CO_2 emissions than the average car and therefore a bigger climate impact. A driver of a petrol SUV company car driver receives up to €8,900 in tax benefits per year - much higher than the €5,500 for an average segment C car. The total benefit that all SUV company car drivers (petrol, diesel and plug-in hybrids) receive **in the five EU countries, cost taxpayers €15 billion annually - 36% of the total €42 billion.** This also explains why companies are registering twice as many climate harming SUVs than private households.

The UK is the only country where company car drivers are incentivised to opt for an EV

If the tax benefits for owning an electric company car are higher than for a petrol, it incentivises companies and employees to switch to an EV. Instead of handing out subsidies to fossil fuel company cars, tax incentives should be prioritised for electric vehicles. However, in Italy, Spain and Poland, electric cars receive less benefits than fossil fuel cars. While in Germany and France, the benefits for an electric company car are only marginally higher. The UK is the only country where the difference in tax benefit is high enough to incentivise companies to opt for an EV.

The UK is the only country where company car drivers are incentivised to opt for an EV



Source: T&E analysis based on ERM (2024)

The European Commission has committed to phase-out fossil fuel subsidies

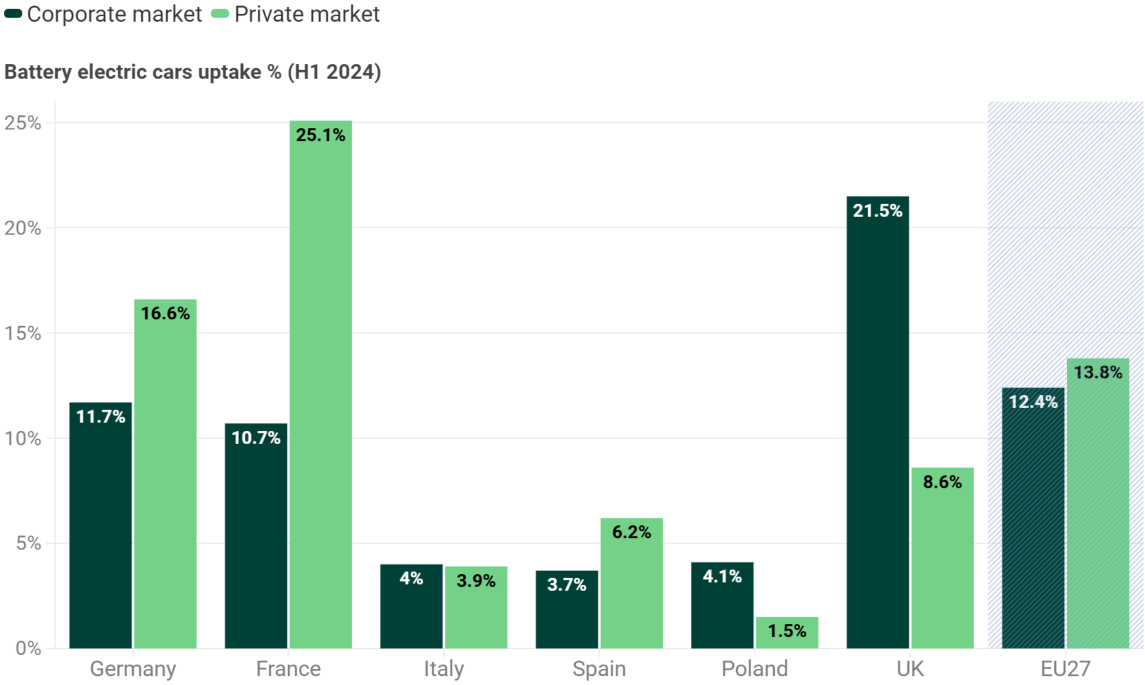
In a recent report, the European Commission lists taxation benefits for fossil fuel company cars as an example of an environmental harmful subsidy. The latter is defined as "any government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs and causes negative environmental impacts to increase as a result".

Last year, the EU heads of state and government pledged in their Council conclusions to "phase out fossil fuel subsidies as soon as possible". Candidate Climate Commissioner Wopke Hoekstra as well as President von der Leyen have also advocated to eliminate fossil fuel subsidies.

The corporate car market: Europe's green laggard

Today, 60% of new cars in the EU are registered by companies, of which more than half are given as a salary perk. In 2024 only 12.4% of all new corporate cars are fully electric, meaning that the large majority are still polluting vehicles. For the third year running, the corporate car market has been electrifying slower than the private segment.

Uptake battery electric cars in corporate and private market



Source: T&E calculations based on Dataforce (2024). New passenger car registrations H1 2024

Conclusions and policy recommendations

Tax benefits for company car drivers are one of the biggest fossil fuel subsidies out there. EU's top governments have fiscal systems where the *polluter pays principle* does not apply and contradict the goals of the EU Green Deal. The European Commission needs to intervene.

Phasing out these subsidies, which benefit the most affluent consumers, is a big opportunity for the new Commission to set out a climate policy that is fair while at the same time boost the EU's green industrial agenda. Accelerating corporate car electrification will create a lead market for clean technology and boost demand for EVs while at the same time bring investment certainty for key industrial sectors such as carmakers, battery manufacturers and the power sector.

In a previous study, T&E investigated the impact of electrifying new corporate registrations in large fleets and leasing companies by 2030 would increase total demand for electric cars by 6.5 million this decade. As a consequence, 8 million more EVs would enter the used car market by 2035.

The Commission has recently closed its public consultation on Greening Corporate Fleets. Now it is time for the new Commission to deliver. In her mission letter to the candidate Commissioner for Sustainable Transport, President von der Leyen has instructed Apostolos Tzitzikostas to come forward with a proposal to make corporate fleets greener. Phasing out fossil fuel subsidies is also mentioned in her mission letter to candidate Climate Commissioner Wopke Hoekstra.

As a next step, **the new Commissioners for Sustainable Transport and Climate Action should commit to come forward with a Greening Corporate Fleets Regulation** that sets binding 2030 electrification targets for large corporate fleets. This Regulation can be proposed as a replacement of the Clean Vehicles Directive of which the targets have become obsolete as they are below the ambition levels of the vehicle CO_2 emissions standards.