Poland's car tax system reform.

How to accelerate the electrification of company passenger cars.

October 2023

Summary

The Polish passenger vehicle market is developing in the wrong direction. The EU is trying to reduce emissions from transportation and electrify the vehicle fleet at the fastest possible pace. In Poland, the majority of newly registered cars are gas-guzzling SUVs, which increase greenhouse gas emissions. Passenger cars in the city and compact segments are losing popularity year by year, and emissions from road transport in Poland are increasing despite the adopted plans to significantly reduce them. One reason for this situation is the tax system that favors cars from the previous era - large, gas-guzzling SUVs.

Poland is the sixth largest car market in Europe, but at the same time electromobility is not developing well in Poland. **In 2022, only 2.7% of newly registered passenger cars in Poland were battery electric cars**. Poland thus ranks fourth to last in the EU. It is therefore in the public interest to discuss and seek solutions to accelerate the electrification of transportation.

Our analysis shows how changes in vehicle taxation could accelerate the development of the electric vehicle market. This is one of the most effective elements of state policy. The proposals contained in the study are of an initial nature, the report is intended to open a discussion on the subject.

We relate our proposals primarily to company cars. This approach has three main reasons.

1. **Company cars** in Poland account for as much as **71% of newly registered** passenger **cars**.
2. When choosing a car, companies are guided not only by the purchase price, but also by the vehicle total cost of ownership. Considering this perspective, battery electric cars may be more beneficial due to their **lower operating costs**.
3. The idea that the leading segment in the electrification of the Polish car fleet should be the corporate segment is a socially just approach.

Under this model, it is corporations and businesses, with better access to capital and tax advantages, that bear the higher initial (purchase) cost of BEVs, while households, particularly those with low and moderate incomes, in turn gain access to cheaper used vehicles after their corporate life (e.g., at the end of a 3- or 4-year lease).

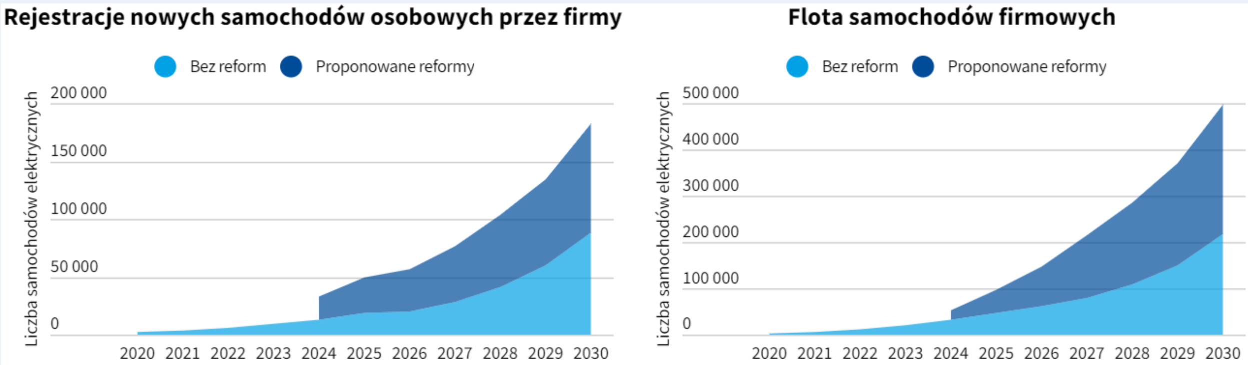
We propose a reform of the Polish vehicle tax system that modifies three existing taxes and introduces a new one. The reform would start in 2024 and continue throughout the electromobility

transition in relation to newly registered cars (i.e., until 2035). **The main goal is to encourage companies to purchase smaller, lighter and more energy-efficient vehicles instead of big and gas-guzzling SUVs, which are currently exacerbating problems related to greenhouse gas emissions, poor air quality and traffic jams in cities**. Currently, the Polish SUV tax system is one of the friendliest in Europe.

In the report, we present the following proposals for reforming the transportation tax system:

- **New car ownership tax**
  In line with the milestones included in Poland's National Recovery and Resilience Plan, we are proposing the introduction of an ownership tax with a CO_2 emissions component and a vehicle weight component. The CO_2 component would mean imposing an annual tax of PLN 5 per each gram of CO_2/km up to 140 g CO_2/km and PLN 15 per each gram of CO_2 above 140 g CO_2/km. The weight component would impose a tax of PLN 0 per kilogram up to 1,600 kilograms and PLN 5 per kilogram over 1,600 kilograms. By 2030, there would be an additional weight bonus of 300 kilograms for BEVs (taking into account the additional weight of the vehicle due to the weight of the battery), which would mean that battery cars weighing no more than 1,900 kilograms would be subject to the PLN 0 rate.
- **Changes in the taxation of private use of a company car**
  Poland's current tax on private use of a company car encourages the use of the most expensive cars, which are often large, heavy and emit large amounts of pollution. Therefore, as in most EU countries, the rate of this tax should increase from 2024 and be based on the level of CO_2 emissions, i.e., 1% of the vehicle value for cars with 0 g CO_2/km emissions, 5% for cars with 1-140 g CO_2/km emissions and 15% for cars with emissions higher than 140 g CO_2/km.
- **Depreciation allowance limit change**
  The reform provides for a continuation of the reduction in depreciation allowances scheduled for 2026 until they are fully phased out in 2030. Such a decision has already been taken by the Belgian government and is expected to result in a nearly 100 percent share of battery electric vehicles in newly registered company cars in 2026, i.e., at the end of the depreciation allowance period.
- **Changes in the amount of VAT deduction for internal combustion vehicles.**
  As of January 1, 2028, for cars with greenhouse gas emissions of 1-140 g CO_2/km, the amount of VAT deduction would be reduced from 100% to 75% for company cars and from 50% to 25% for mixed-use (company/private) vehicles. For cars with greenhouse gas emissions above 140 g CO_2/km, this would be a reduction from 100% to 50% for company cars and from 50% to 0% for mixed-use vehicles, respectively.

We estimate that the implementation of our proposed changes **will increase battery car registrations by 112% by 2030**, **compared to a no tax change scenario**. This means that **320,000 additional battery vehicles could be on the road between 2024 and 2030**.



Rejestracje nowych samochodów osobowych przez firmy	New passenger cars registered by companies
Flota samochodów firmowych	Company car fleet
Bez reform	No reforms
Proponowane reformy	Proposed reforms
Liczba samochodów elektrycznych	Number of electric vehicles

Number of newly registered company battery electric cars (left side) and fleet of registered company cars (right side) without and with implementation of proposed reforms

More new electric car registrations will also have a **positive impact on reducing CO_2 emissions from transportation as well as reducing oil imports and consumption**. The proposed reforms would also lead to an **increase in budget revenues**. In the years **2024 - 2030**, the reform would generate additional budget revenues of **PLN 10.7 billion**.