German Advisory Group

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Financing instruments in the traffic sector in Germany and recommendations for Ukraine

Frank Meissner, Oleksandra Betliy

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Institute for Economic Research and Policy Consulting
Reytarska 8/5-A,
01034 Kyiv, Ukraine
Tel: +38 044 / 278 63 42
Fax: +38 044 / 278 63 36
institute@ier.kiev.ua
http://www.ier.kiev.ua

About the German Advisory Group

The German Advisory Group on Economic Reforms, which is active in Ukraine since 1994, advises the Ukrainian Government and other state authorities such as the National Bank of Ukraine on a wide range of economic policy issues and on financial sector development. Our analytical work is presented and discussed during regular meetings with high-level decision makers. The group is financed by the German Federal Ministry of Economics and Technology under the TRANSFORM programme and its successor.

German Advisory Group
c/o BE Berlin Economics GmbH
Schillerstr. 59
D-10627 Berlin
Tel: +49 30 / 20 61 34 64 0
Fax: +49 30 / 20 61 34 64 9
info@beratergruppe-ukraine.de
www.beratergruppe-ukraine.de

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This policy briefing provides an overview of the financing instruments in the traffic system of Germany and elaborates recommendations for financing the road system in Ukraine. It has been prepared upon request from Deputy Finance-Minister Efimenko.

1. Overview

There are three major sources of revenue from the German vehicle traffic system. They do not relate to each other and are separately captured:

1) **Car tax on the ownership of a car** – revenue in Germany is around EUR 8 bn. The tax object is the single vehicle. The tax rate depends on the cylinder capacity of the car and the used fuel. The tax is paid once a year. The revenue is not directly used for the road system; it goes into the overall national budget. The administration effort for collecting this tax is quite high in respect of the overall revenue raised. There are good arguments for an abolishment of this tax. The tax has elements of a "steering tax". The use of smaller cars with less emission should be promoted.
2) **Tax on the consumption of fuels –** revenue in Germany is around EUR 40 bn. (see below)
3) **Fee on the use of motorways by lorries ("Maut") –** revenue in Germany is around EUR 3 bn. The system is very complex and is installed for taxing the transit traffic through Germany. Each lorry has to pay for using the motorways depending on the route. The route is measured by technical equipment on the motorways and with GPS.

In principle, for most of German taxes the "universality principle of taxes" holds. This means that there is no directly defined use for tax revenue. For the tax on the consumption on fuels this principle does not hold. Further, due to the fact that the "Maut" is a fee and not a tax the use of the fee is defined by the topic of revenue - here the traffic system. The revenue of this fee goes directly back into financing of roads and road equipment.

2. Tax on the consumption of fuels (TOF) in Germany

The tax on several kinds of fuels used in the transportation sector is called **Tax on the consumption of fuels** (TOF).

The levy of the TOF has been regulated in the "Law on Energy Taxes" since June 2006. In this law the use of all fossil primary and secondary energy carriers is covered.

Before 2006, a separate "Law on Mineral Oil Tax" existed. With the harmonising of European tax laws and with the "restructuring the Community framework for the taxation of energy products and electricity" (COUNCIL DIRECTIVE 2003/96/EC) mineral oils were included into the broader energy tax law.

The TOF is a tax on the quantity of a fuel product and is defined as a percentage additional charge on net price of a fuel. It is a so-called "Bundessteuer" (federal tax), which flows into the national budget. However, the "universality principle of taxes" does not hold for the TOF. This means that in contrast to most taxes in Germany the usage of the TOF in the national budget is defined. The annual amount is used for the expenditures in the road system and to a smaller share for the German pension scheme. The annual amount is around EUR 40 bn.

The TOF is a "steering tax", which should reduce the use of non-regenerative resources and the CO2 emission. This is one reason for different tax rates for different fuels.

3. Collection of TOF in Germany

The collection of TOF is regulated by §8 of the German Energy Tax Law. The tax arises if the fuel is removed from a so-called "tax stock". The tax stock can be a point of storage the fuels or in some cases a lorry too.

In charge of the collection of the TOF are the customs offices in Germany ("Hauptzollämter"). In principle, the tax authority could be in charge for this duty.

The owner of the tax stock is the debtor of the tax. Taxes are added to the (net) price of the fuel. In this way the debtor receives the tax "back" from his customers who now pays the tax through higher prices. The tax has properties of an excise tax.

The need for such a complex system results from different taxes on the same products, depending on the use of the fuel.

The seller of the fuel has to keep two different accounting systems for fuels used for traffic purposes, and fuels used otherwise.

4. TOF tax rates in Germany

Tax rates differ in respect of the type of the carrier and the use of them. Reason for this is that the tax is used as "steering tax" for reducing emission.

Table 1: TOF rates

	per 1 litre	*per 1 kg*	*per 1 kWh*	*per 1 MWh*
	tax rate - traffic used, EUR per unit			
gasoline (sulphur < 10 mg/kg)	0.67	0.47	5.63	5626.32
Diesel (sulphur < 10mg/kg)	0.65	0.56	6.11	6114.90
LPG until 2018		0.18	2.30	2304.00
LPG after 2018		0.41	5.24	5235.20
natural gas until 2018		1.18	0.01	13.00
natural gas after 2018		0.03	0.34	341.00
	tax rate - heating used, EUR per unit			
light heating oil	0.06	0.05	0.61	613.50
heavy heating oil	0.03	0.02	0.29	287.50
LPG		0.06	0.77	768.00
natural gas			0.01	5.50

Source: Own calculations based on:

Steuer Insel: http://www.steuer-insel.de/index.php/energiesteuer/

Custom Office: http://www.zoll.de/b0_zoll_und_steuern/b0_verbrauchsteuern/b0_energie/b0_beguenst_entlast/b0_st_ermaessig/index.html

Autogas Boerse: http://www.autogas-boerse.de/archiv/aktuelles/das-neue-energiesteuergesetz.html; German energy tax law: http://www.gesetze-im-internet.de/bundesrecht/energiestg/gesamt.pdf

5. Exemptions and reduced tax rates

These instruments are used in Germany for supporting cars with innovative techniques and low emissions (e.g. liquefied petroleum gas, LPG). This results from the objective target to reduce CO2 emissions in the traffic sector. However, exemptions increase the bureaucratic effort.

→ If such a target does not hold in the context of Ukraine, exemptions are not needed

A second reason for exemptions and reduced rates is a subsidy for several industries for supporting them or because of the use of the fuel for non-traffic reasons or non-road traffic. One prominent example is the agriculture sector in Germany. An agriculture company is able to receive a refund of paid TOF on diesel, because of the use of the vehicles mainly on fields (i.e. non-road). Therefore, the company has to indicate the used amount at the custom office. This system creates an intense bureaucratic effort.

6. Problematic of "liquefied gas"

Liquefied gas is taxed with a lower rate until 2018. Main reason for this is the lower CO2 emission of such gases.

In the same way Switzerland reduced the tax on natural gas products used in the transport sector and exempted biogas from TOF.

The amount of liquefied gas – sold at petrol stations - for cooking reason is low in Germany due to a separate distribution net (pipes) of natural gas for heating and cooking. The gas is purchased in cylinders already filled. Usually, cylinder use is a deposit system or an exchange.

The tax rate for such liquefied gases used for heating and cooking is not as high as the tax for vehicle used cars.

Box: Example for chain of taxation of liquefied gas in Germany

A producer sells his liquefied gas to a reseller without any tax on the gas. The reseller owns a tax stock. He sells his gas to a petrol station. The gas might be used for heating and for traffic. Both only use one tank for the gas. The amount used for traffic has to be taxed. The reseller increases the price of the liquefied gas used in traffic in the amount of the tax. Then the reseller pays the tax revenue on the quantity he purchases as traffic gas. The petrol station has two accounting systems, one for each use. For the traffic gas the petrol station takes the higher price, so the final customer pays the tax.

7. Recommendations for financing the road system in Ukraine

(**1**) A combination of an existing fee (tax) on vehicles and a tax on fuel consumption integrates the "use-aspect" and the "possession-aspect" of vehicles. Both taxes together could increase the controlling possibilities of the administration. But therefore, an overall tax reason needs to be defined. For simplification reasons one single tax could be the best solution. This would reduce the administrative effort. Steering elements of the car tax scheme could transfer in this way into a tax on fuels.

Implementing a fee for motorway use of lorries is inadvisable due to high costs of implementation and the comparably low revenues.

(**2**) For simplicity and uniformity reasons one single tax rate per energy unit should be implemented, defined as UAH per energy unit. This would result in different taxes per litre of fuel.

(**3**) Non-traffic use of fuels has to be separated from the tax scheme. Therefore, the installation of so-called "tax stocks" would be necessary. In principle such stocks could be implemented at every stage of the distribution chain. In a tax stock both taxed and non-taxed fuels form the same type are stored. The owner of the tax stock is responsible for paying the tax. The higher the tax stock is installed in the distribution stage, the lower are the number of transactions between the administration and the taxpayers. The tax has to be paid not less than once a month or four times a year. Further it has to be guaranteed that purchased heating or cooking fuel is not used for vehicles. Therefore, a control system has to be implemented by the authority at the point where the tax is added on the fuel – at the tax stock.

(**4**) The collection has to be monitored by one single administrative unit which is represented in each Oblast. This could be e.g. the tax administration.

(**5**) Several usages should be excluded from paying the tax because they do not use the road system. Such could be: construction machines, agriculture vehicles and vehicles of the public transport system (e.g. harvesters do not use the road as much as a private car but need a lot of fuel). Owners of such vehicles would get back the paid tax from the administration that is in charge of the collection.

List of recent Policy Briefings

- Taxation of Individual Entrepreneurs in Germany: Follow Up, by Alexander Knuth and Ricardo Giucci, Policy Briefing 06, October 2010
- Comments on Depreciation Methods foreseen for Profit Taxation in the Draft Tax Code (Draft Tax Code version as published on Aug 3, 2010), by Thomas Otten, Ricardo Giucci and Robert Kirchner, Policy Briefing 05, August 2010
- Selected Comments on the Draft Tax Code (as adopted in the first reading on June 17, 2010), by Ricardo Giucci, Robert Kirchner, Oleksandra Betliy and Thomas Otten, Policy Briefing 04, July 2010
- Taxation of Individual Entrepreneurs in Germany, by Alexander Knuth and Ricardo Giucci, Policy Briefing 03, July 2010
- The VAT refund problem: Towards a sustainable solution for the future, by Ricardo Giucci and Robert Kirchner, Policy Briefing 02, July 2010
- Reforming the Simplified Taxation for Individual Entrepreneurs in Ukraine, by Ricardo Giucci, Robert Kirchner, Oleksandra Betliy and Thomas Otten, Policy Briefing 01, June 2010