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Encouraging car use is bad for environment and health: OECD

Advanced economies are pushing up carbon emissions, traffic congestion and air pollution by under-taxing company cars and diesel fuel, according to new OECD research.

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Most OECD governments tax company cars at lower rates than wages and in a way that encourages people to drive greater distances. A study of 27 OECD countries, as well as South Africa, has found that under-taxing company cars amounts to an average annual subsidy per car of EUR1600 (AU$2183), ranging from just EUR57 (AU$78) in Canada to EUR2763 (AU$3770) in Belgium.

The total cost across the 28 countries examined is estimated for 2012 at EUR26.8 billion (AU$36.6 billion) of foregone tax revenues, according to the reports.

The environmental and social costs are higher still. Increased contributions to climate change, local air pollution, health ailments, congestion and road accidents from the under-taxation of company cars in OECD countries is estimated to cost EUR116 billion (AU$158 billion).

Adding to environmental concerns, 33 of 34 OECD countries tax diesel at a lower rate than petrol, even though diesel vehicles produce more carbon emissions per litre and more harmful air pollutants than petrol vehicles. Diesel contains approximately 18 per cent more carbon per litre than petrol, yet remains the most used vehicle fuel in 23 of 34 OECD countries, due in part to this tax differential.

The OECD is calling on governments to stop subsidising company cars and to phase out the diesel tax differential. This would benefit public finances as well as air quality.

‘The cost of driving a car today does not properly reflect the impact on the environment and to society. Taxing diesel fuel and company cars correctly would help to fix this,’ said OECD Environment Director, Simon Upton.

An OECD policy brief, *Under-taxing the benefits of company cars*, shows that perverse tax incentives in many countries are encouraging company car owners to drive up to three times as much as people with private cars.

On average, OECD governments only tax about half the benefits accrued by employees from company car use under personal income tax regimes.

A separate OECD study, *The Diesel Differential*, argues that applying lower tax rates to diesel goes against efforts to reduce emissions and air pollution.

Transport accounts for a quarter of carbon emissions in most OECD countries and is a major source of air pollution. In the European Union, company cars make up 12 per cent of cars on the road and around half of new registrations, while 55 per cent of new registrations are diesel cars.

Source: OECD