

Recommendations for Amendments to the Calculation of the Special Tax on Motor Vehicles

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

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Introduction

Special tax on motor vehicles belongs to the group of excise duties, which means that the taxpayer calculates and pays them into the state budget in the name and on behalf of the beneficiary.

Special tax is determined on the basis of carbon dioxide (CO₂) emissions expressed in grams per kilometer, the selling price of the motor vehicle, the engine power in kilowatts, the engine volume in cubic centimeters and the level of exhaust emissions.

Special tax for used motor vehicles is paid in the amount of the remainder of the special tax determined according to the percentage of the decrease in the value of the same motor vehicle on the market in the Republic of Croatia, from whose first registration the same time period has elapsed.

Special tax on motor vehicles is determined by the Motor Vehicles Special Tax Act, and the amount is determined according to the Regulation on the calculation of the special tax on motor vehicles.

Special tax on motor vehicles and other motor vehicles converted into such motor vehicles is paid according to the average carbon dioxide (CO₂) emission, depending on the type of fuel used in the vehicle and the selling price of the motor vehicle, as follows¹:

$$PP = (VN + PC) + (ON + EN)$$

where:

PP – special tax in HRK

VN – value fee in HRK

PC – fee determined by deducting the lowest amount for the group to which the motor vehicle belongs from the selling price of the motor vehicle and multiplying the amount thus obtained by the percentage set for the group to which the motor vehicle belongs

ON – basic fee in HRK

EN – fee determined by deducting the lowest amount for the group to which the motor vehicle belongs from the amount of average carbon dioxide emission (CO₂) of the motor vehicle and multiplying the amount thus obtained by the corresponding amount in HRK by one g/km CO₂.

¹ Regulation on the calculation of the special tax on motor vehicles, https://narodne-novine.nn.hr/clanci/sluzbeni/2018_12_109_2092.html, accessed on 4/3/2019

Special tax on motor vehicles

The current Regulation on the calculation of the special tax on motor vehicles (PPMV), effective from January 1, 2019, prescribes the following calculation methodology:

PPMV1 (colloquially: luxury tax): percentage of the selling price of the vehicle incl. VAT for vehicles that cost more than HRK 150,000:

Table 1: Calculation for PPMV1

PPMV 1			
Prices including VAT		Basic fee	Addition to the basic fee
HRK 0	HRK 50,000	HRK 0	0.0%
HRK 50,000	HRK 100,000	HRK 0	0.0%
HRK 100,000	HRK 150,000	HRK 0	0.0%
HRK 150,000	HRK 200,000	HRK 2,000	3.0%
HRK 200,000	HRK 250,000	HRK 3,500	5.0%
HRK 250,000	HRK 300,000	HRK 6,000	7.0%
HRK 300,000	HRK 350,000	HRK 9,500	9.0%
HRK 350,000	HRK 400,000	HRK 14,000	11.0%
HRK 400,000	HRK 450,000	HRK 19,500	13.0%
HRK 450,000	HRK 500,000	HRK 26,000	14.0%
HRK 500,000	HRK 550,000	HRK 33,000	15.0%
HRK 550,000	HRK 600,000	HRK 40,500	16.0%
HRK 600,000	<	HRK 48,500	17.0%

Source: Regulation on the calculation of the special tax on motor vehicles

PPMV2 (colloquially: environmental tax): amount of HRK/gram of CO₂ according to available official data on CO₂ emission (g/km):

Table 2: Calculation for PPMV2 for petrol, liquefied petroleum gas, natural gas and fuels other than diesel

Petrol & LPG			
PPMV 2			
CO ₂ g/km		Basic fee	Addition to the basic fee (HRK/g CO ₂)
0	75	HRK 0	HRK 0
75	90	HRK 95	HRK 35
90	120	HRK 620	HRK 135
120	140	HRK 4,670	HRK 450
140	170	HRK 13,670	HRK 700
170	200	HRK 34,670	HRK 1,200
200	<	HRK 70,670	HRK 1,300

Source: Regulation on the calculation of the special tax on motor vehicles

Table 3: Calculation for PPMV2 for diesel fuel

Diesel			
PPMV 2			
CO2 g/km		Basic fee	Addition to the basic fee (HRK/gCO2)
0	70	HRK 0	HRK 0
70	85	HRK 185	HRK 55
85	120	HRK 1,010	HRK 175
120	140	HRK 7,135	HRK 1,150
140	170	HRK 30,135	HRK 1,250
170	200	HRK 67,635	HRK 1,350
200	<	HRK 108,135	HRK 1,450

Source: Regulation on the calculation of the special tax on motor vehicles

Competent authorities of the European Union have stipulated a mandatory implementation of the new system for measuring fuel consumption and exhaust emissions *Worldwide Harmonized Light Vehicle Test Procedure* – the WLTP Measurement Cycle for all vehicles type-approved after September 1, 2017, with a transitional period of 1 year (that is, until September 1, 2018), which allows the usage of measurement data under the “old” *New European Driving Cycle*, the NEDC cycle. Since the WLTP cycle is much stricter in comparison to the NEDC, until the end of 2019 the use of correlated NEDC values is permitted, which are nevertheless estimated to be 8% to 15% higher than the measured values, and are between the NEDC values and WLTP values.

Accordingly, vehicles type-approved in the EU in the second half of 2018 pay a significantly higher environmental tax (PPMV2) than their predecessors, while a much more permissive criterion is applied for used vehicles, as WLTP cycle data will not be available for them. In addition, used vehicles also have special age-related tax relief:

Table 4: Special tax calculation for used motor vehicles

Time period since 1st registration			New PPMV amount
0 days	-	1 month	96%
1 month	-	2 months	93%
2 months	-	3 months	90%
3 months	-	4 months	88%
4 months	-	5 months	86%
5 months	-	6 months	84%
6 months	-	7 months	82%
7 months	-	8 months	81%
8 months	-	9 months	80%
9 months	-	10 months	79%
10 months	-	11 months	78%
11 months	-	12 months	77%
12 months	-	13 months	76.00%
13 months	-	14 months	75.08%
14 months	-	15 months	74.12%
15 months	-	16 months	73.16%
16 months	-	17 months	72.20%
17 months	-	18 months	71.24%
18 months	-	19 months	70.28%
19 months	-	20 months	69.32%
20 months	-	21 months	68.36%
21 months	-	22 months	67.40%
22 months	-	23 months	66.44%
23 months	-	24 months	65%
24 months	-	26 months	63.58%
26 months	-	28 months	62.16%
28 months	-	30 months	60.74%

Time period since 1st registration			New PPMV amount
30 months	-	32 months	59.32%
32 months	-	34 months	57.90%
34 months	-	36 months	56.48%
36 months	-	38 months	55.06%
38 months	-	40 months	53.64%
40 months	-	42 months	52.22%
42 months	-	44 months	50.80%
44 months	-	46 months	49.38%
46 months	-	48 months	47.96%
48 months	-	51 months	46.36%
51 months	-	54 months	44.76%
54 months	-	57 months	43.16%
57 months	-	60 months	41.56%
60 months	-	64 months	40.06%
64 months	-	68 months	38.56%
68 months	-	72 months	37.06%
72 months	-	78 months	35.26%
78 months	-	84 months	33.46%
84 months	-	90 months	31.66%
90 months	-	96 months	29.86%
96 months	-	102 months	28.06%
102 months	-	108 months	26.26%
108 months	-	114 months	24.46%
114 months	-	120 months	22.66%
120 months	-	132 months	21.72%
132 months	-	144 months	21.12%
144 months	-	156 months	20.52%
156 months	-	168 months	19.92%
168 months	-	180 months	19.32%

Source: Ordinance on motor vehicles special tax

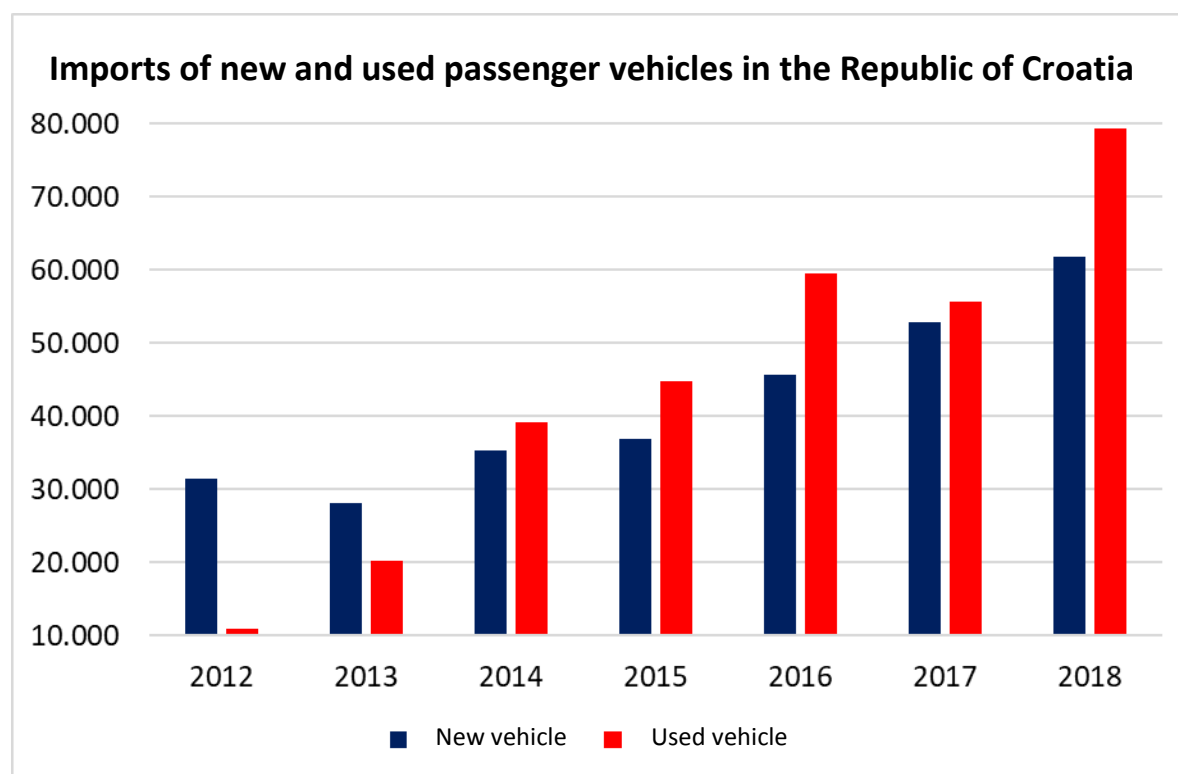
This has led to the situation that in Croatia, due to the tax aspect, technologically more modern vehicles will be significantly more expensive than the older generation of vehicles, and especially than the used vehicles imported from other EU Member States. This discourages the sale of new, more environmentally advanced vehicles in Croatia, while indirectly encouraging the use of used and older vehicles. This is especially true for EURO 5 and lower diesel vehicles, which emit high levels of carcinogenic substances such as NOx and particulate particles (nanoparticles).

An urban SUV with a gasoline engine of approx. 120 hp:
 PPMV on a new vehicle: HRK 22,070
 PPMV on a 5-year-old vehicle: HRK 4,088

It is important to point out that the state budget suffers significant losses in the collection of VAT under the application of the current practice, since used vehicles in the EU are mainly purchased from natural persons and are not subject to VAT in the Republic of Croatia.

The result of such measures can be seen in Table 5, especially in view of the fact that the new taxation system was introduced on July 1, 2013:

Table 5: Comparison of imports of new and used passenger vehicles in the Republic of Croatia



Source: Center for Vehicles of Croatia, <https://www.cvh.hr/tehnicki-pregled/statistika/>

In reality, the situation is even worse, since around 18,000 vehicles up to one year old are exported from Croatia annually (fleet return from car rental companies and the so-called day registrations). The average age of vehicles in the Republic of Croatia is currently over 13 years, according to the Center for Vehicles of Croatia.

Recommendations for improvement

The automotive industry has traditionally represented a significant source of revenue for Croatia's state budget and it is not realistic to expect that the state will give up a significant portion of its revenue from PPMV. On the other hand, as a result of harmful airborne particles, environmental pollution caused by older vehicles can generate a significant increase in health care costs. Also, a high proportion of older cars with lower environmental standards make it difficult to meet Croatia's CO₂ reduction targets.

AmCham suggests the following measures:

1. Price reduction of 1 g/CO₂ for vehicles measured using WLTP by 30%
2. Abolition of depreciation of calculated PPMV on used vehicles, i.e. equalization of criteria for calculation of environmental tax (PPMV2) for new and used vehicles

By adopting the proposed measures the level of revenue in the state budget would be maintained, while potential buyers of used vehicles would at the same time be encouraged to buy used vehicles with lower CO₂ emissions, such as hybrid and plug-in hybrid vehicles, for which this tax component is relatively low (hybrids) or equal to 0 (plug-in hybrids).

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