

Vehicle taxation

Taxes have been levied on motor vehicles in Finland since the late 1950s. Vehicle tax is currently based on the Vehicle Tax Act (1482/1994) and has been changed numerous times, mainly to meet EU legal requirements. Since 2008 the level of vehicle tax has been set primarily on the basis of a vehicle's specific carbon dioxide emissions.

The Ministry of Finance is responsible for preparing vehicle taxation. The practical implementation of vehicle taxation is the responsibility of Customs. Vehicle tax revenues have totalled about 1.2 billion euros a year, with new vehicles accounting for nearly 90 per cent of this figure. The import and taxation of used vehicles has increased considerably since 2003, and this takes up most of Customs' work input involving vehicle taxation even though used vehicles' share of total vehicle tax revenues is relatively small. Administrative efficiency with regard to the taxation of used vehicles is therefore poor, especially if it is compared to the taxation of new vehicles, which is administered quite efficiently.

The taxation of used vehicles has raised a number of difficult EU legal questions. On the basis of EU legal practice, it has been necessary to amend legislation and to take retroactive measures particularly with regard to used vehicles. The latest judgment of the Court of Justice concerned the collecting of a tax equivalent to VAT in connection with vehicle tax. The judgment led to the amendment of the Vehicle Tax Act as well as sizable tax refunds. Adjusting vehicle taxation to EU legislation has largely been left up to individual citizens' activeness, since the Ministry of Finance has only taken the necessary measures when required to do so on account of suits brought by taxpayers in the Court of Justice. The National Audit Office considers that more proactive legislation could have reduced the extensive problems that have occurred in implementing taxation.

Some citizens have felt that the taxation of used vehicles in particular is unfair and contrary to EU principles. Combined with the delay in developing legislation, this has led to an unusually large number of appeals. The result has been the need for considerable additional resources and sizable costs. To some extent this phenomenon together with long processing times may have led to a weakening of legal security and even eroded citizens' trust in the fairness of the tax system.

Over the decades many tax breaks or exemptions for special groups have been appended to the vehicle tax system. Replacing these tax subsidy-type solutions with administratively more appropriate subsidy systems should be investigated in connection with the next broader reform of vehicle taxation legislation. At the same time the current Vehicle Tax Act, which has been amended several times, could be rewritten and put into a more understandable form.

From an environmental viewpoint the present vehicle tax based on vehicles' specific carbon dioxide emissions so far appears to be working as expected and to steer consumers towards models with lower emissions.