EUROPEAN CYCLISTS' FEDERATION

Confederation of the European Bicycle Industry
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Joint ECF and CONEBI Position Paper: EU VAT reform and its implications for cycling

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Summary

Electric bicycles (Electrically Power Assisted Cycles, EPACs) present numerous benefits for promoting sustainable mobility and for achieving EU environmental and transport targets. They have a high potential to replace car trips. A number of Member States and many regional and local authorities have already launched purchase incentive schemes to promote their use. The possibility to apply reduced VAT rates on the purchase, rent and repair of EPACs could help to further increase their market uptake. However, under the proposal of the Commission for EU VAT rates reform published in January 2018, this would not be allowed. Member States could set reduced or zero VAT rates on the purchase, renting and repair of bicycles without power assistance and electric cars, but not EPACs and other light electric vehicles. **ECF and CONEBI strongly recommend to extend the possibility of setting reduced or zero VAT rates to EPACs** by adding CPA category 30.91.13 (Motorcycles n.e.c.; side-cars) to row (7), columns C and D of the Annex to the Proposal for a Council Directive amending Directive 2006/112/EC as regards rates of value added tax (COM(2018) 20 final ANNEX).

1. E-cycling: High potential for sustainable mobility

Electric bicycles (technically speaking Electrically Power Assisted Cycles, EPACs) present numerous benefits for sustainable mobility. They have an enormous potential to help the EU, Member States, cities, and regions to achieve their targets in terms of air quality, decarbonisation, and other objectives:

- EPACs allow for longer distances to be cycled with the same level of effort compared to conventional bicycles. A study of the German Federal Environmental Agency shows that in an

urban context, conventional bicycles are faster than cars for distances of up to 5 km. With e-bicycles, this radius is enlarged to 10 km, and even for longer distances of up to 20 km the time difference with the car (electric or fuel-driven) is marginal.1

- EPACs make it easier to overcome natural obstacles to cycling, like hills or headwinds.
- EPACs and electric cargo-bicycles make it possible to transport heavier goods than conventional bicycles and cargo-bicycles. This is an advantage for private individuals, for example when they do their shopping by bicycle, but also for companies relying on fast urban logistics solutions.
- EPACs open up cycling for groups that have not cycled previously because of their physical condition (the elderly) or because of a lack of perceived convenience, for example commuters who do not want to transpire too much during their ride to work.

For all of these reasons, EPACs offer a high potential to replace car trips in Europe. This has also been shown in practice: When France introduced a national purchase incentive scheme for EPACs and did a large-scale survey among beneficiaries, it showed that **in 61% of the cases, EPAC trips replaced car trips and in only 21% of the cases trips by "conventional" bicycle.**

If we consider that for example in Germany, 28 % of all CO2 emissions from passenger transport occur on trips shorter than 15 km, and that short-distance car trips are the most polluting ones, not only in terms of CO2 but also of air pollutants, the potential contribution of EPACs to the EU's environmental and urban mobility targets becomes evident.

Despite these obvious benefits, many public e-mobility strategies in Europe focus exclusively on cars. For example, Germany had already spent ca. 1.4 billion € of public subsidies on research and development of electric cars until 2014, and added another subsidy scheme of 600 million € for a buyer's premium in 2016. The results of this massive investment until today are rather disappointing: 54 000 purely electric cars are rolling on German streets today, and the target of having rolled out 1 million electric cars until 2020 seems almost impossible to reach. At the same time, EPACs have known a massive uptake in Germany during the same period, with practically no public subsidies involved neither for research and development nor for purchase premiums, apart from some small pilot projects. Currently, approximately 3.5 million EPACs are in use in Germany, and the number would probably be much higher had there been the same targeted and massive public financial support as for electric cars.

2. The proposal for EU VAT rates reform

2.1. General context

In its recent proposal for reforming the EU's VAT (Value Added Tax) rates system, the Commission has laid out its plans to give Member States more flexibility in setting VAT rates. In a nutshell, Member States, while having to respect a weighted average VAT rate of 12%, will be able to set reduced or even zero VAT rates on all goods, except those figuring on a specific list attached as an annex to the proposal. For the goods on this list, the standard VAT rate of at least 15% has to be applied. The list of goods has been compiled based on the CPA (Classification of Products by Activity) codes, dating from 2008.

[1] https://www.umweltbundesamt.de/sites/default/files/medien/378/publikationen/hgp_e-rad_macht_mobil_-_pelelecs_4.pdf

2.2. Proposed rules concerning cycling

Amongst others, standard VAT rates would have to be applied to the sales, hire, maintenance and repair of means of transport and fuel oil and gas (CPA codes 29, 30, 33.15, 33.16, 45, 47.00.81, 77.1, 77.34, 77.35, and 77.39.13). The only means of transport exempted from this obligation would be non-motorised bicycles, baby carriages and invalid carriages (CPA codes 30.92, 33.17.19, 47.00.65, 47.00.75, 77.21.10, 77.29.19, 95.29.12), and cars without a combustion engine, meaning electric cars or hydrogen cars (29.10.24, 45.11.2, and 45.11.3). **This means that bicycles without electric pedal assistance, but also electric cars, could benefit from reduced or zero VAT rates, while Member States would be obliged to apply standard VAT rates on EPACs (classified under CPA code 30.91.13).**

3. Assessment

Compared to the current regime, this means an improvement for bicycles without pedal assistance. At the moment, Member States are not allowed to apply reduced VAT rates to the sales of any type of bicycle. However, ECF and CONEBI consider that the possibility to apply reduced rates needs to be extended to EPACs under the reformed VAT regime. EPACs are currently the most sold electric vehicles in the EU by far, and present numerous benefits in terms of making cycling more accessible e.g. in hilly areas, for longer commuting distances, or for senior citizens.

What is more, a number of Member States, such as Sweden, France, or Austria, have introduced purchase premiums schemes to increase the market uptake of EPACs (see ECF Report "Electromobility for all"). Most recently, the Transport Commission of the Spanish Parliament has voted on a motion calling for the introduction of various fiscal incentives for cycling, including purchase premiums for EPACs and reduced VAT rates for both conventional and EPACs. Being able to apply reduced or zero VAT rates could further bolster these policy measures at national level, while the current proposal puts a break on them. For Member States who have not yet introduced support schemes, setting reduced or zero VAT rates on EPACs could also be cost-efficient alternative since this measure does not entail administrative costs. It could also reduce the cost of EPACs for customers significantly in countries where high prices have so far formed a major obstacle to their widespread uptake, for example because of lower income levels.

The measure would also be cost-efficient: For example, the EPACs sold in 2016 in the EU produce benefits of 4.4 billion EUR only in terms of public health and CO2 emissions reduction over the next five years.[2] On the other hand, tax revenues for 2016 would have decreased by only 0.7 billion EUR if the VAT on sales would have been reduced to 0% in all Member States - a small fraction of these benefits.

For all of these reasons, ECF and CONEBI strongly recommend the Council to consider extending the exemption of bicycles from obligatory standard VAT rates to EPACs as well by adding CPA category 30.91.13 (Motorcycles n.e.c.; side-cars) to row (7), columns C and D of the Annex to the Proposal for a Council Directive amending Directive 2006/112/EC as regards rates of value added tax (COM(2018) 20 final ANNEX). For the future, ECF and CONEBI also recommend to create a specific CPA category for electrically power assisted cycles (EPACs).

[2] Calculated using the WHO's HEAT tool (http://www.heatwalkingcycling.org)

Commission proposal:

(7)	Supply, hire, maintenance and repair of means of transport	29 30 33.15 33.16 45 47.00.81 77.1 77.34 77.35 77.39.13	Supply, hire, maintenance and repair of bicycles, baby carriages and invalid carriages Supply of motor cars and other motor vehicles principally designed for the transport of <10 persons, incl. station wagons and racing cars, other than those vehicles with spark-ignition engine only or with compression-ignition internal combustion piston engine (diesel or semi-diesel) only	30.92 33.17.19 47.00.65 47.00.75 77.21.10 77.29.19 95.29.12 29.10.24 45.11.2 45.11.3

Amendment suggested by ECF and CONEBI:

(7)	Supply, hire, maintenance and repair of means of transport	29 30 33.15 33.16 45 47.00.81 77.1 77.34 77.35 77.39.13	Supply, hire, maintenance and repair of bicycles, baby carriages and invalid carriages Supply of motor cars and other motor vehicles principally designed for the transport of <10 persons, incl. station wagons and racing cars, other than those vehicles with spark-ignition engine only or with compression-ignition internal combustion piston engine (diesel or semi-diesel) only	30.92 33.17.19 47.00.65 47.00.75 77.21.10 77.29.19 95.29.12 29.10.24 45.11.2 45.11.3 **30.91.13**