



What Should the Vehicle and Vessel Taxes in China be?

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Introduction

Background to the Vehicle and Vessel Tax Law of the People's Republic of China

China's economy has developed very fast in the past three decades. This has brought vast amounts of social wealth, but also caused serious environmental problems such as water pollution, soil pollution and atmospheric pollution. China has become the second biggest emitter of carbon dioxide from industrial sources in the world. Recently, the Ministry of Environmental Protection of the People's Republic of China published the *China Vehicle Emission Control Annual Report (2010)*, which states that China was the highest producer and seller of motor vehicles in 2009. It produced 13.791 million motor vehicles of which 13.645 million were sold domestically in 2009.¹ Motor vehicles driven in China during 2009 emitted 51.433 million tons of pollutants.² Pollution from these vehicles is becoming worse and worse, and exhaust emissions of motor vehicles have become the main source of air pollution in large and medium-sized cities. Therefore, the Chinese central government has decided to decrease the emission of carbon dioxide from between 40-45 per cent by the end of 2020, on the basis of 2009 levels. To this end, many solutions have been adopted. One such solution is the proposed amendment of the

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¹ Ministry of Environmental Protection of the PRC, *China Vehicle Emission Control Annual Report (2010)*, available at <http://wenku.baidu.com/view/9617dd40be1e650e52ea9913.html>.

² Ibid.

*Vehicle and Vessel Taxes Law of the People's Republic of China (VVTLP RC)*³ to better control emissions of carbon dioxide from motor vehicles and vessels.

Overview of the Amendments to the VVTLP RC

On 28 October 2010, the amendments to the *VVTLP RC* were deliberated for the first time in the seventeenth session of the tenth Standing Committee of the National People's Congress (SCNPC). The proposed revised *VVTLP RC* has several innovations, especially taxing vehicles and vessels according to their engine capacity. Those vehicles and vessels with different engine capacities will pay different taxes according to the following table.

Table: Tax Assessment and Tax Items of Vehicle and Vessel Taxes

Tax Items		Assessment Unit	Base Assessment by year(¥)	Remarks
Passenger vehicles (hierarchically displacement vehicles) by of	Vehicles Under 1.0 liter	Per unit	60-360	Carrying below nine passengers by approval.
	Vehicles 1.0-1.6 liters		360-660	
	Vehicles 1.6-2.0 liters		660-960	
	Vehicles 2.0-2.5 liters		960-1620	
	Vehicles 2.5-3.0 liters		1620-2460	
	Vehicles 3.0-4.0 liters		2460-3600	
	Vehicles above 4.0 liters		3600-5400	
Commercial vehicles	Passenger car	Per unit	480-1440	Over nine passengers by approval, including tram.
	Truck	Unladen weight/ton	16-120	1.Including trailer, tractor-truck, beachwagon, tricar, low-speed truck, etc. 2.Tractor-trucks taxed by 50% tax of trucks.
Other vehicles	Special motor vehicle	Unladen weight/ton	16-120	Not including tractors.
	Special and mechanical cars	Unladen weight per ton	16-120	
Motor bikes		Per unit	36-180	
Vessels	Motor vessels	Net tonnage per ton	3-6	Tug, barge without motor taxed by a half. Motor vessels, yacht shall be taxed separately.

³ A copy of the draft amendments to the *VVTLP RC* is available at http://www.npc.gov.cn/huiyi/lfzt/ccsf/node_14419.htm.

Every vehicle owner in China must currently pay the same tax of 360-660 yuan. Under the proposed revisions to the *VVTLPRC*, motor vehicle owners will pay differing taxes according to the engine capacity of their cars, calculated in terms of the above table. This would mean that vehicle owners possessing cars with an engine capacity of less than 1.0 liter would pay much less tax than those possessing cars above 1.6 liter capacity.

The purported objective behind the proposed amendments to the *VVTLPRC* is energy efficiency and the reduction of greenhouse gas emissions. The method to achieve this objective is through imposing differential taxation on motor vehicles according to their engine capacity. But can the amendments achieve their purported objectives? Firstly, what is the real objective behind the amendments? Is it really only about energy efficiency and emission reduction, or is it also about adjusting the distribution of social wealth and raising additional revenue for the government? Secondly, what is the relationship between the revised *VVTLPRC* and other relevant taxes such as the: consumption tax; acquisition tax; and the fuel levy on vehicles and vessels? Thirdly, is engine capacity alone the correct base for determining the revised vehicle and vessel taxes? These issues are considered in turn below.

Critical Evaluation of the Proposed Amendments to the *VVTLPRC*

Since the SCNPC solicited opinion from interested and affected parties on the proposed amendments to the *VVTLPRC*, the public has expressed their controversial opinions online. Some members of the public have expressed concern that the background to and purpose of the proposed amendments lack clarity. Questions have therefore arisen, in the absence of reliable studies, about whether the increase in taxes for vehicles with higher engine capacities will actually achieve the stated environmental objectives of improving energy efficiency and reducing emissions. With the rapid development of technology, the inevitable correlation of environmental pollution caused by vehicles with higher engine capacities is unclear. This has raised doubts as to the real purpose of the revised vehicles and vessel taxes, with some people being of the opinion that it simply constitutes another form of taxation under

the guise of an environmental rationale.⁴ Furthermore, with 58 per cent of China's vehicle market comprising of cars with an engine capacity of less than 1.6 liters, others have argued that the new tax only targets the wealthy sectors of the population, which predominantly drive vehicles with engine capacities in excess of this threshold.⁵ This discontent is fueled by the numerous other forms of taxation currently levied on vehicles owners and users, such as: automobile consumption taxes; value-added taxes; car purchases taxes; and other environmental taxes.

Significant concerns have also arisen regarding the base on which the revised vehicle and vessel taxes are formulated, namely the engine capacity of the vehicle. While the imposition of differential levels of taxation on higher capacity engines would on the face of it appear to make sense, the actual emissions and efficiency of different models of engines of the same capacity is not factored into the equation. Furthermore, the age of the vehicle is not taken into account in the tax calculation. It is accordingly questionable whether the tax in its current form will achieve the environmental objectives it purports to achieve.

Conclusion

Given the above problems, the proposed revisions to the *VVTLPRC* have been met with public opposition. This opposition largely stems from a lack of clarity regarding the rationale for introducing the tax, the anticipated inequitable operation of the tax between different sectors of society and the apparently flawed base on which the tax will be calculated. Something clearly needs to be done to curb vehicle emissions in China given their increasing contribution to the country's carbon dioxide emissions. Significant effort will need to be made by the government to convince the public of the merits of implementing the revised vehicle tax and that its primary objective is energy efficiency and emissions reduction.

⁴ See further: Auto 163 Talk Show, 'Does it Add Taxes in Disguised Form or Save Energy and Reduce Emissions?' (2010) available at <http://auto.163.com/10/1029/14/6K60371800084JTN.html>; and Auto 163 Talk Show, 'Does Add Taxes in Disguised Form Wearing a Vest of Saving Energy?' (2010) available at http://auto.163.com/special/chechuanshui_talkshow/.

⁵ Ibid.

Every coin has two sides. Notwithstanding the above shortcomings associated with the proposed revisions to the *VVTLPRC*, its introduction has compelled Chinese citizens to rethink and debate the problems relating to social and economic equity, environmental protection and the relationship between these issues. This debate has in turn promoted independent thought and awareness of environmental issues.