

Emissions-Based Vehicle Tax Reform for Cyprus: A Simulation Analysis

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Abstract

Several policy tools are being employed or debated as possible ways of curbing carbon emissions in the transportation sector. One such instrument is the taxation of vehicle purchases, often in the form of feebates. We estimate a model of demand for automobiles in Cyprus and simulate scenarios under which (i) a feebate scheme is introduced in addition to existing taxes and (ii) the existing consumption tax is completely replaced by an emissions-based tax. The analysis provides a useful quantification of the tradeoffs between government revenue, consumer welfare from vehicle use and environmental harm from emissions.

Keywords: CO2 emissions, vehicle taxation, carbon taxes.

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