Tax Incentives for Electric Vehicles in the European Union

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Katerina Ilieva | **IBFD European Knowledge Group**

The author can be contacted at k.ilieva@ibfd.org

1. Introduction

The European Union has placed decarbonization at the heart of its economic strategy. Through initiatives such as the European Green Deal and the Fit for 55 legislative package, the Union aims to reduce greenhouse gas emissions by at least 55% by 2030 and achieve climate neutrality by 2050. Transport, which is responsible for around a quarter of EU emissions, is a central focus of this transition. As a result, accelerating the uptake of electric vehicles (EVs) has become a key policy priority.

While the European Union sets ambitious regulatory targets, taxation remains almost exclusively within the competence of individual Member States. Consequently, tax incentives have emerged as a very powerful national tool to encourage EV adoption. However, the design, scope and effectiveness of these incentives vary significantly across Europe, shaping consumer behaviour and market development in very different ways.

This note provides a brief overview of the different types of tax incentives in the European Union, discusses their efficiency and outlines key considerations for the near future.

2. EU-Level Policy Framework and Types of Tax Incentives Across the Union

Taxation falls under the national competency of the Member States, and each of them is allowed to set tax incentives as they see fit. Nevertheless, EU-level legislation influences the overall direction and scope of these measures. While the Union does not harmonize vehicle taxation, it shapes environmental policy through regulatory instruments such as CO2 emission performance standards for passenger cars and vans as in, for example, Regulation 2019/631. EU State Aid rules determine the conditions under which governments may subsidize clean mobility initiatives without creating undue distortions of competition within the internal market. Furthermore, EU funding instruments provide crucial financial support, particularly to Member States in Central and Eastern Europe, enabling them to introduce purchase grants, invest in charging infrastructure and support fleet electrification schemes.

Against this regulatory and financial backdrop, tax incentives serve as a key mechanism to reduce the price differential between electric and conventional vehicles and to accelerate large-scale adoption. While the European Union does not directly harmonize these tax instruments, its regulatory architecture creates a coordinated incentive environment in which Member States use fiscal policy as a complementary tool to meet shared decarbonization targets.

Across the Union, governments employ a broad range of fiscal instruments targeting both private consumers and corporate purchasers with the purpose of incentivizing the faster adoption of EVs. The most common measures include:

- Purchase incentives – Some Member States offer direct subsidies/discounts for buying EVs to lower upfront costs, e.g. Austria and Greece;

- VAT relief – Reduction or exemption of VAT by the purchase of zero-emission vehicles (ZEV)s as another way to lower upfront costs, e.g. Norway;
- Registration tax exemptions – Some Member States impose one-off taxes when a vehicle is first registered, often based on CO2 emissions, with fully electric cars frequently being exempt or subject to minimal charges, e.g. Austria, Bulgaria and Denmark;
- Road taxes benefits – EVs are often exempt for several years or taxed at heavily reduced rates when it comes to road taxes, e.g. Norway;
- Company car incentives – Lower benefit-in-kind (BIK) taxation for EVs, especially in Member States in which company cars make up a large share of new vehicle sales, e.g. Greece and Sweden; and
- Corporate tax advantages – Businesses may benefit from accelerated depreciation, investment deductions or additional write-offs when purchasing electric fleets, e.g. Austria and the Netherlands.

3. Country Comparisons: A Look at Major EU Markets

Germany

After a short pause (of 2 years) to the incentives, which led to a sharp decline in sales, Germany has reintroduced a new set of tax incentives consisting of two rules, starting from 2026. The first allows battery electric vehicles (BEVs) registered between 1 January 2026 and 31 December 2030 to be exempt from vehicle tax for 10 years (until 31 December 2035 at the latest). The exemption applies only to purely electric cars, and not to plug-In hybrid electric vehicle (PHEVs). The second, in the form of a purchasing grant of up to EUR 6,000, will be granted to private individuals depending on their income and vehicle price.

Netherlands

The Netherlands first introduced EV tax incentives back in 2009. After more than 10 strong years, the government slowly phased out the incentives, and now, in 2026, there are barely any tax incentives applicable. In 2026, there are no more subsidy schemes for electric passenger cars and electric vans, which allowed for a flat-rate deductible amount. Furthermore, prior to 2025, ZEVs paid no purchase tax. However, as of 2025, this changed, and buyers need to pay a fixed purchase/registration tax of EUR 667 (in 2025) and EUR 687 (in 2026). From 2026 through 2028, ZEVs will be subject to motor vehicle tax at a 30% discount. In 2029, the discount will be reduced to 25%, and from 2030 onwards, there will be no discount. The motor vehicle tax for hybrid or plug-in hybrid motor vehicles is calculated the same way as for non-hybrid motor vehicles.

Spain

Through the end of 2026, a temporary 15% tax credit for purchasing new EVs (up to EUR 20,000) and installing charging systems (up to EUR 4,000) is provided for the acquisition of qualifying new EVs.

Denmark

In 2026, the registration tax rate for ZEVs is 40% of the calculated registration tax. Initially, the government planned a gradual increase of the rate by 8% per year between 2026 and 2030, reaching 80% by 2030, and then by 4% per year until reaching 100% by 2035. However, at the end of 2025, the government delayed the decrease of the beneficial percentage by 1 year and capped the percentage at 40% and the tax-free threshold (which indicates when registration tax becomes payable) at DKK 419,300 for 2026. Furthermore, upon registration, a special basic deduction is granted for the calculated tax on ZEVs. In 2026, the deduction is DKK 161,300.

Norway (EEA honorary mention)

Anybody who is interested in EVs knows that Norway is one of the countries with the highest adoption of ZEVs in Europe. To encourage that, the government introduced various tax incentives, including ZEVs' exemption from the registration tax, VAT and motor fuel taxes, as well as at least a 50% reduction in road taxes and ferry and parking fees. In recent years, Norway has almost reached its goal for green EV transitioning (in 2025, 95.9% of the car registrations were ZEVs) and has scrapped some of the available tax incentives. Currently, the VAT incentive is being phased out, and in 2026, the VAT exemption applies only to the first NOK 300,000 of the purchase price (in 2025, the threshold was NOK 500,000; in the years before that, there was no threshold).

4. Effectiveness and Challenges

Fiscal incentives are one of the most decisive factors behind EV market growth, as seen by the sharp decline of number of BEVs purchased in Germany once the incentives were scrapped. Thus, countries with more advantageous tax benefits show higher rates and a higher share of BEVs on the road.

However, incentives also bring challenges. They can be expensive for public budgets, particularly when adoption accelerates, as seen by Norway's example. Another challenge that governments face is that of fairness and households' spare income.

Apart from fairness, there is also the question of complexity. Individuals and businesses have to navigate a maze of national rules, eligibility criteria and changing conditions. Moreover, for multinational companies operating across Europe, the lack of harmonization makes fleet planning more complicated.

Finally, as EVs become mainstream, governments face a dilemma. Fuel taxes and vehicle taxes are important revenue sources, yet widespread electrification will gradually erode these streams. Long-term fiscal sustainability will require new approaches to road taxation and mobility charging.

5. Future Outlook: Towards a Unified EU Strategy?

The next decade, particularly, will be decisive for Europe's transport transition. The latest announcement by the European Commission states that the future plans for the Union's automotive sector include a 90% reduction in CO2 emission by the planned phase-out of new internal combustion engine (ICE) car sales by 2035. The remaining 10% emissions will have to be compensated for through the use of low-carbon steel made in the Union or from e-fuels and biofuels. This shift will bring policy changes in other areas, such as tax and purchase incentives. To boost the industry, a new vehicle category, under the Small Affordable Cars initiative, covering EVs up to 4.2 meters in length will be introduced. This will enable Member States and local authorities to develop targeted incentives, stimulating demand for small EVs made in the European Union.

This, however, needs more coordination at the EU level in order to mitigate the fragmented national approaches. Although full harmonization of vehicle taxation remains politically unlikely, common guidelines on minimum incentives or shared best practices could help create a more consistent internal market.

At the same time, governments must ensure that the benefits of electrification are accessible to all citizens, not only early adopters. This may mean creating targeted tax incentives supporting second-hand EV markets, subsidizing home charging for apartment dwellers or integrating EV incentives with broader public transport policies.

6. Conclusion

Tax incentives have played a crucial role in putting EVs on Europe's roads. They have helped overcome cost barriers,

encouraged manufacturers to invest and brought the Union closer to its climate objectives. Still, the current landscape remains fragmented, with significant differences between Member States.

As EV technology matures, the challenge for policymakers will be to design incentives that are effective, equitable and fiscally sustainable. Stable and predictable tax frameworks will determine whether Europe can maintain momentum toward a truly zero-emission transport system. The road to electrification is well underway. How Europe chooses to tax it will shape the speed of the journey.

IBFD references:

- EU tax law developments are reported on the daily IBFD Tax News Service page.
- For an overview of legislative initiatives at the EU level on direct tax matters, *see* the EU Direct Tax Law Initiatives Tax Dossier.