Differences in Environmental Tax Reforms (ETR) between CEEC and Germany/UK

Resource Productivity, Environmental Tax Reform and Sustainable Growth in Europe

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- ETRs as implemented in Germany and the UK
- ETRs in Central and Eastern European Countries – Estonia and Czech Republic
- ETRs and other policy fields – what may / should be considered when discussing the future potential of ETRs

What is understood under ETR/EFR?

- **Environmental tax reform (ETR)** is basically a reform of the national tax system where there is a shift of the burden of taxes from conventional taxes, such as labour, to environmentally damaging activities, such as resource use or pollution. *Revenue neutrality* is an important characteristic of ETRs in Europe meaning that overall tax burden remains the same (government budgetary position is unchanged).
- **Environmental fiscal reform (EFR)** is a broader principle, which focuses not only on shifting taxes and tax burdens, but also focuses on reforming subsidies.

(European Environment Agency, 2005)

Taxation structure in EU Member States

Structure of tax as % of total taxes (incl social contributions) in 2005 (source: Eurostat 2007)

	CZ	DK	EE	DE	NL	SW	UK	EU
Indirect tax	32.8	35.5	43.5	31.3	34.4	33.8	35.9	34.8
-VAT	19.8	19.8	28.4	16	19.2	18.2	18.4	17.4
Direct tax	25.6	62.3	22.9	26.6	31.2	39.3	45.4	33.2
-Per'al income	12.7	48.4	18.1	22.2	17.6	30.5	28.4	23.2
Social contr.	41.6	2.2	33.5	42.1	34.4	27	18.6	32.2
-employers	28.7	0	32.3	18.1	10.8	21.1	10.5	18.4
-employees	9.9	2.2	1	16.5	17.1	5.5	7.8	10.1
TOTAL TAX	100	100	100	100	100	100	100	100
Environment tax (energy tax)	**7.7** (6.9)	**11.5** (4.6)	**7.1** (6.1)	**6.4** (5.4)	**10.5** (5.5)	**5.7** (4.9)	**6.8** (5.4)	**6.5** (4.8)

ETR – Germany

ETR – implemented during the period 1999 – 2003 and then a ‘freeze’

- Environmental objective: Environmental protection and in particular the reduction of greenhouse gas emissions as a means of climate change mitigation
- Economic/employment objective: to reduce the employers’ and employees’ statutory pension contributions in order to reduce labour cost and to increase employment
- Energy taxes – annual increase in transport fuel taxes and increase in natural gas and fuel oil plus introduction of an electricity tax
- Recycling mechanism applied: Reduction in pension contribution: Without the eco-tax revenues of around 18.6 billion Euro, the contributions would have been expected to be around 21.2% in 2003 and have actually been 19.5% in 2003, ie a reduction of 1.7%

ETR - UK

Three ETRs have been implemented since 1996:

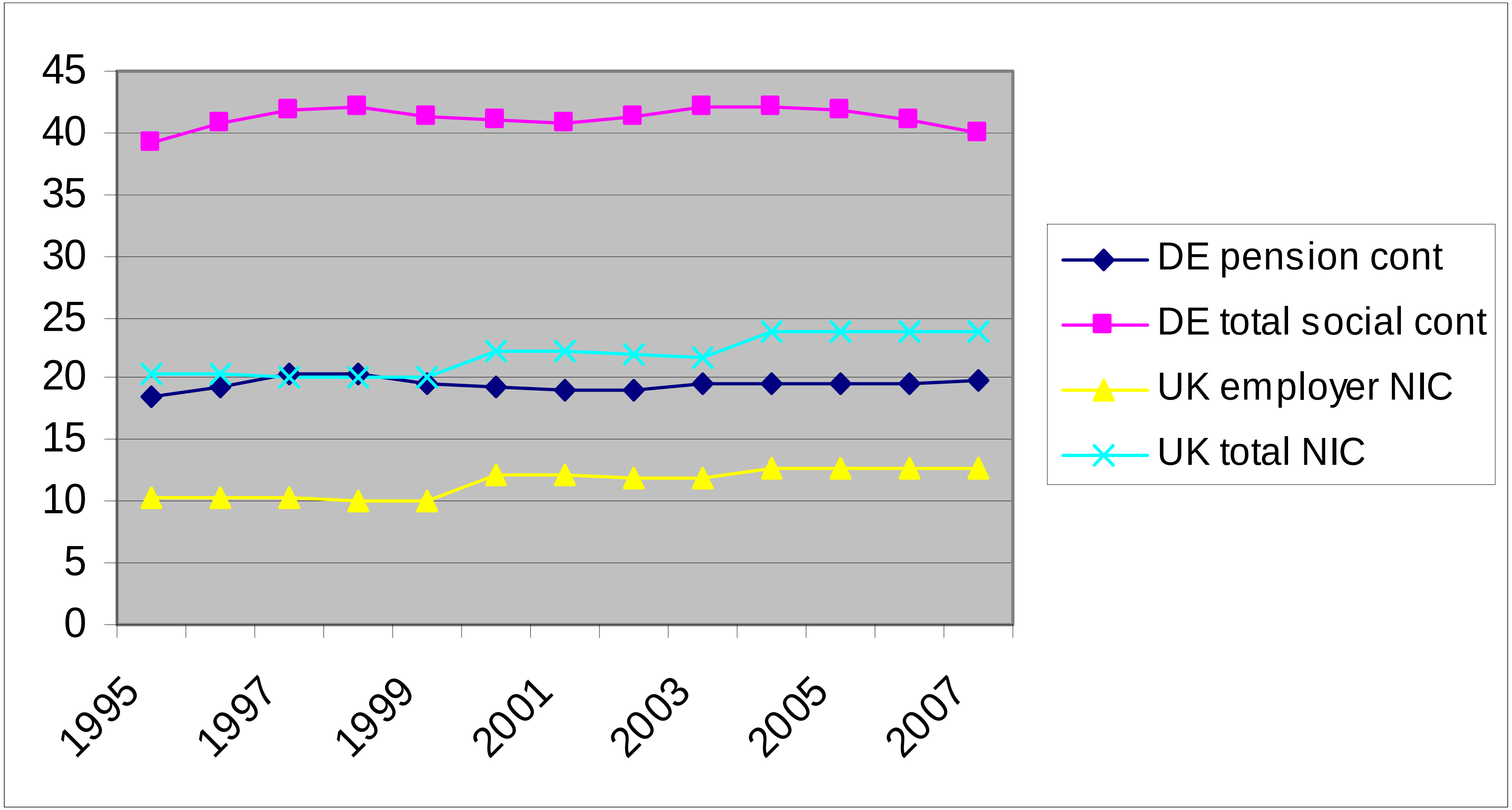
- 1996 – landfill tax;
- 2001 – climate change levy (business energy use); and
- 2002 – aggregates tax.

Recycling mechanism of all three ETRs: reduction in employers' NIC and a proportion for environmental investments, such as Carbon Trust;

- from April 2008: revenues accrued through increase in landfill tax will be recycled via a reduction in corporation taxes

- UK: ETR revenues raised from the three taxes: 2.7 billion Euro; 0.15% of GDP and 2.1% of social contributions (3.8% employers' NIC) in 2005
- DE: ETR revenues of around 18 billion Euro; 0.8% of GDP and 5% of social contributions in 2005

Development of social security contributions (Germany and the UK)



ETR – Estonia

ETR started in 2006 and to be implemented in two phases until 2013

- 2006 - increase in pollution charges and natural resource taxes – revenue raising capacity is rather limited
- 2008 - increase in transport fuel taxes (petrol and diesel) and introduction of tax on electricity → fulfilling the minimum excise duty rates as laid down in the 2003 Energy Taxation Directive (2003/96/EC)
- Recycling mechanism: revenues are planned to offset the reduction of personal income tax rate (flat tax) from 23% (2006) to 20% (2009) – approach applied in Sweden

- Aim of ETR – shifting taxes from income to environment → improving competitiveness, supporting economic development and reducing unemployment. Interesting as no reduction in social contributions which are solely paid by employers (33 percent of taxable income)

ETR – Czech Republic

2008: major revision of fiscal / tax system

- Introduction of income flat tax (15% but changes in taxable income so that effective income tax rate will be around 20%) plus changes/reduction in corporate income tax
- plus ETR to be implemented in three stages
  - 1. stage: introduction of new energy taxes (coal, natural gas and electricity – based on 2003 Energy Taxation Directive)
  - 2. stage (2009/2010): consideration of introducing CO2 tax replacing the current system of pollution charges
  - 3. stage (after 2010): to be determined in due course
- ETR should be revenue-neutral: reduction of social contributions (employer and employee)

ETR in Europe – a summary

- ETR concept throughout Europe is rather similar
- approaches implemented differ between EU Member States in terms of the actual design:
  - environmental / energy taxes being utilised
  - sectors affected (household, industry, transport, etc.)
  - revenue recycling measures applied
  - part of a larger fiscal reform process
  - size of the ETR (revenue shift: 0.15% of GDP in the UK as compared to 0.8% in Germany)

ETR in Europe – summary / latest development

'Finally, the evidence from the survey of environmental taxation is sobering. Despite the added urgency in the public debate, the taxman's efforts to reducing energy consumption are letting up, at least in the EU-15. This may be justified by greater efforts done elsewhere, as in emission trading; but is nevertheless at odds with the perceptions of the general public as well as with oft-stated policy objectives (Eurostat 2007, p.10)'

ETR and other policy fields – future development

Future Potential of ETR?

- Energy taxes – significant in terms of revenue raising and in particular transport fuel taxes (petrol and diesel)
- Climate policy: successful climate policy will shrink the tax base for energy taxes (especially transport fuels as the main revenue source; drop in petrol is currently offset by increase in diesel) – increase in tax rates to offset the drop in consumption?
- Emission Trading Scheme (EU ETS): auctioning of permits; BUT the question arises whether the funds are available for recycling measures (ETR) or to be utilised for other policy issues

ETR and other policy fields – future development

- → Other revenue sources: abolishing special tax provision (energy tax reduction) in Germany - amounting to 8 billion Euro per annum (14% of env tax revenues)
- → Transport taxes (annual circulation taxes or sales/import taxes – significant in other countries, such as Denmark and the Netherlands – but EC proposal on revision of car taxation)
- → Other environmental taxes to be introduced?
- → Recycling measures: more support for environmental investment programmes (also in the context of the revision of state aid rules) instead of reduction of labour taxes → fostering other EU policies (renewable energy target, energy efficiency, etc)