

European Environmental Fiscal Policies and Strategies

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Abstract: *This article provides an overview of key economic issues in the use of taxation as an instrument of environmental policy. The E.U. fee system is currently undergoing periodical analysis regarding not only its improvement and adaptation to the continuously changing conditions, as far as the recent goals and policies are concerned, but also the inclusion of new possibilities.*

We make a description of the present tax system as we have pointed out both its advantages – it offers enough permanent resources – and its major disadvantages – the complete lack of visibility and the reduced links it has with the policies of the E.U. Should this system be regarded as an alternative, it would also be considered a political option. Consequently, we could say that there is no simple solution to this and that, moreover, the pollution taxes (eco-taxes) also represent an important problem. The environmental taxes appear to have a significant potential - including general taxes on energy used by industry and households, various road transport taxes, and taxes on aviation and on waste. In a number of these areas, efficient environmental tax design will make use of a number of taxes in combination - a "multi-part instrument".

Keywords: *Tax reform, environmental taxation, pollution taxation*

Introduction

Fragility of the environment and impact of human activities on it are stronger today than ever. Fiscal policies should reflect the current needs of our world – including environmental issues – and for that we need a new fiscal philosophy. We need a change of emphasis from labour taxation, the taxation impact of our activities have on the environment.

Environmental taxes, can not only determine the price increase to their true cost resources, but also represents a way that can be collected resources to finance projects aimed directly combating the harmful effects of human activities on the environment. Thus, a policy of sustainable development is inconceivable in the absence of effective policies on environmental taxation.

1. The Characteristics of Fees in the European Union

As the European Union is currently undergoing a significant evolution, the taxation system is, therefore, going through frequent structural analysis as well, in order for it to be improved and adapted to the conditions that are continuously changing so as to match the recent objectives and policies and also include new possibilities of development.

The intergovernmental conference (IGC), entitled “Financial Prospects”, and the multiannual working context of the European Union led to brand new debates on the European Union’s own taxes, asking for a structural analysis of some of the pros and cons so as to give the EU the power of charging some taxes. The following criteria have been taken into account:

- the EU Budget - all the taxes are meant to bring in money which adds to the European Union budget, so as to ensure in time the existence of all the resources that are imperative in order for everything to go on well; taxes must respect the following conditions of evaluation: sufficiency - 1 the money coming from taxes must be sufficient for the European Union to cover its functional expenses and stability: taxes must bring stable incomes to the EU budget.

- efficiency - this aims at the fact that these administrative expenses of the taxes should represent a reasonable part of the total income, representing a social economic advantage. Taxes must respect the following conditions of evaluation: visibility - through visibility, we understand a raise in the amount

of information given to the taxpayers as far as the value of the imposed taxes and their use are concerned and reduced operating expenses. The EU taxes should be quite simple to administrate and they should also involve reduced operating expenses: this is one of the most important parts regarding the efficiency of the entire system. [3]

- efficient resources allocation - the European Union taxes should facilitate an efficient resources allocation, taking into account two things: ensuring a potential relaxation for the community actions and give the EU policies a hand with the domains where problems such as frontiers externality or limited coordination between the country members come across and leading to creating a harmony between some of the potentially beneficial taxes for the intern market.

- equity - this represents a complex concept, seldom quite difficult to achieve because of its content which varies in time and depends on the policy of the powers in charge. At the horizontal level the European Union tax has to have the same impact on the taxpayers from all over the European Union. At the vertical level it also has to make a redistribution of the income in the entire structure of the society. In present, the European Union taxes collect incomes from the country members which are proportional to their economical development.

2. Fiscal Policies and Strategies on a European level

As a positive side of all these, the modular tax will bring enough income to the European Union, will be visible to the citizens of the EU and will be horizontally equal. It is based on a tax which has already been applied in the European countries and in the financial system of the union, without bearing any side effects on the efficiency and equity of the economy.

An equalizing mechanism should be developed between the country members so as to make up for the variations in the incomes collected from each and every country. A balance between the country members regarding their untaxed goods and services has to be established.

The incomes of the companies in the European Union may bring significant benefits as far as the intern market's efficiency is concerned and may also facilitate the over-border actions by making sure that investments are safely made. Serious difficulties may arise in the way the tax will be defined as it will take an unanimous approval and an interstate harmony in order for it to be applied. [7, 564-577]

- 1) **The energy tax** is a tax concerning the fuels used in transportation; it can allow an efficient resources allocation, bringing in important profit to the budget; it's relatively easy to project and be put into practice, but it has some weak points regarding its vertical equity.
- 2) **Tobacco and Alcohol excises** consist of a tax which has already been thoroughly applied in the EU and can be quite easily changed by imposing the minimum standards of taxation for these goods; however, when it comes to the unequal distribution of the taxation basis between the country members, these excises are not so perfect anymore; it will take the development of an equalizing mechanism in order for it to be rightly put into practice; it also causes troubles as far as the redistribution of incomes is concerned.
- 3) **The Income Tax Aspects of Property Transfers** is not hard to be achieved as it brings along practical advantages and reduced administrative costs; it bears no visibility and it can affect the responsibility of the European Union budget, despite the fact that this may sometimes end up being a political advantage, and the incomes may cover only a small part of the EU expenses; the main problems regarding the income tax aspects of the property transfers are connected to its practical uses as the central banks could register significant losses after the introduction of the tax, thus causing long-terms problems.
- 4) **The Communications Tax** could bring some advantages if it contained some important elements, being both visible and fair, but, on the other hand, it may bring up practical difficulties – it will be hard to introduce it as a new tax because of its limits.
- 5) **The Personal Income Tax** is a taxed based on the personal income, which may bring a rise in the responsibility of the European Union, giving it free hand to important budget resources in a fair way; however, political debates should take place in order for people to accept the taxation basis, the tax value, the

implementing of the tax itself and many other aspects; furthermore, having been applied, it will trigger a sensible way of financing the EU; the main disadvantages are represented by the huge implementing and administrative costs and by it being mistaken for the national personal income tax.

- 6) **The Financial Transaction Tax** is quite easy to be applied, maintaining its equity as well; however, it will disturb the localization of the capital and the financial investments in the European Unions; the tax should be designed so as to avoid this small problem, but then it will not produce enough income and, more than this, the incomes will be affected by its instability and uncertainty. Finally, imposing a tax on the capital is a quite touchy political subject.
- 7) **The Climate Change Levy** applied to flights. Planes “bring their contribution” to the climate changes, but this tax will not bring enough incomes to the European Union budget. The tax will have to be complemented by other resources and will need a certain financial autonomy. However, there will be obstacles as far as imposing this tax on people is concerned as it will affect the competition between the European airline companies. [9]

Everything being taken into account, this multi-criteria analysis points out that there is not such thing as a perfect tax as all the potential taxes have both pros and cons, which does not necessarily lead to giving up applying and using them, but encourages us to choose more carefully among them, while paying attention to all the criteria mentioned before.

A discussion concerning the budget should not only point out the advantages brought by certain taxes, but also analyses the new financial system, which should result after the implementation of one of the new taxes, compare it to the present one, which mainly consists of transfers between the country members.

The present system has the advantage of offering stable and fair resources, while respecting the horizontal equity, but also brings some major disadvantages – such as a complete lack of visibility and quite a few links with the European Union policies. Should this system be regarded as an alternative, it becomes a political problem of choosing. Therefore, we could say that there is no simple solution available and, furthermore, that the environmental taxes represent a complex problem. [2, 1471-1545] The technical arguments listed above try to present both the costs and the benefits of different options. The financial system of the European Union will eventually be politically decided, while taking into account all these arguments.

3. The Environmental Taxes in the European Union

The statistics basis for the development of the environmental taxes has been imposed by Eurostat, the Directorate-General for the Environment (European Commission) and the Directorate-General for Taxation and Customs Union, OCDE, AIE, according to whom the environmental tax is based on the environmentally polluting actions.

One of the first initiatives of the European Community has been the environmental protection, approved by the Council in 1993. This came as a result of taking into consideration the latest scientific progresses as far as fighting against the air pollution caused by the CFS gases was concerned.

Consequently, the project has been correctly applied, as the fifth action programme emerged; it has been approved for the general use by the council, on the 1st of February. This represented the starting point for the efforts of reducing the allowed level of CFC gases emissions up to the present situation.

Therefore, this fifth amendment established the terms of reduction of different pollutants as far as the CFC gases emissions were concerned; it has also defined the European standards for the polluting gases emissions coming from the engines with a capacity under 1400 cm³, a thing which had been introduced through the Council Directive 89/458/EEC that decided to extend the appliance of these standards to all passengers' vehicles, regardless of their engine capacity, based on an improved, urban

test. As far as the diesel engines were concerned, different criteria have been taken into account, also including their product quality. [8, 1-23]

The conclusions of the paperwork concerning the Perspective of the European Transport from 2010 also pointed out the necessity of adopting a high number of political measures and of introducing the instruments that are needed in order for a process of developing a modern transportation system to take place in the next 30 years. The measures which are encouraged represent in fact, a long-term strategy.

The development of a modern transportation system depends on solving the following problems:

- an adequate financial programme, meant for the development of the infrastructure and the making of trans-European ways, which will involve reduced expenses;
- a new approach of the urban means of transportation, by raising awareness among people who use their personal cars instead of public transport;
- economic policies and changes in the process which influences the demand in means of transportation;
- policies regarding the urban means of public transport in the big cities;
- a social-educational policy;
- budget and fiscal policies meant to connect the environmental expenses and the making of trans-European ways of travel;
- development of the railways, etc.

These measures regarding the vehicles and public transport quality should reach the European Union level. Therefore, new laws should also be imposed in other domains, such as telecommunications, finances and transportation, which are to respect the present needs of the European Union and coordinate the national authorities as far as the allocation of the necessary investments is concerned. In order to do this, the actual ministries should change their policy and try to reach a common point in the decisions made by the Parliament or by the European Council, while taking advantage of the opportunities brought to them by the Maastricht Treaty, highly developed by the Amsterdam and the Nice Treaties, regarding the idea of taking a decision by consulting the reasons of the qualified majority. [1]

So as to speed up a bit the process of making a decision, the Commission has made a calendar of the actions concerning the economic and social environment and the consequences of the environmental measures already imposed on people. This calendar should mainly take into account a detailed analysis of the side-effects of the continuous “growth” of Europe, which can actually change the people’s need for the means of transportation included in the scheme. The Council will continue to come up with different proposals of measures that should be applied in order for us to reach a progress in the European Community. We mention here the transportation taxes, the fuel tax, the vehicles tax, the air pollution and water pollution tax, the land tax, the pesticides tax etc. [5]

The environmental taxes are referred to as really important taxes (including the energy, the transportation, the pollution and the resources taxes). The taxes on the CO₂ emissions are enclosed in the energy taxes, sometimes also representing a significant part of these. The VTA has been excluded from the analysis of the taxes imposed on the polluting elements; it happened the same for the rights of petrol and gases extraction. The comparisons have been made only between the taxes belonging to the national accounts systems, meaning that the government payments for treating wastewater have not been taken into account. [6]

The briefing of the English organisation “Friends of the Earth” proposed the following action plan to the government, which included:

1. making sure that the vehicles industry sells only efficient products;
2. introducing stimulating measures which should sustain the development of bio-fuels;
3. ensuring a stable support in favor of public transportation, walking or riding a bike;

4. introducing favorable measures that should stimulate the use of public transportation and fiscal taxes in order to reduce traffic;
5. raising the level of road taxes for the vehicles which are less efficient, thus obliging people to buy more economic and less polluting cars;
6. giving a hand to the railways and to the airlines.

Although many of these proposals are difficult to apply in the case of most economies, they seem to be quite necessary. As far as the bio-fuels development is concerned, this is just a passing trend, as by burning them, we obtain the same amount of CO₂, and only have the advantage of emitting less secondary pollutants. Regarding the rest of the other measures, they are being taken into account by the members of the European Union. The above-shown results represent the magnitude of the measures that should be taken, but also the technical, economic and social difficulties that may arise after putting them into practice. The conclusions reached by the European Commission suggests the basis for the country members to adopt the stimulating fiscal measures, meant to accept the vehicles with a low pollution rate.

The value of the environmental tax income should not be seen as a proof in favor of the environmental protection, but as a high rate of taxation imposed on things that harm the nature around us, no matter what the reason standing behind applying it may be. Further details can be found in the Eurostat publication, entitled “Environmental taxes in the CEA”, as well as in the books of statistics, as part of the amount of money from the national fund, directed to the EU. The introduction of the new European accounting system caused a certain discontinuity in the statistical results presented as a graphic report. The consequence of this system affects only the environmental tax, perceiving them as a whole. The list containing the individual taxes has been made by the Directorate-General for Taxation and Customs Union. Each and every country member’s list can be found in the Eurostat catalogue, which includes information about the taxation systems, also mentioning the total taxes, the work taxes, the total amount of income obtained from taxes such as the production and imports tax, the personal income tax. [4, 152-174]

The work taxes are, generally speaking, defined as personal income taxes, salary taxes and social contributions of the employees, which are proportional to their income. We can notice that, although the environmental taxes have made a real progress as an instrument used for controlling the economy, the percent of their appliance in the developed economic systems shows that the green fiscal reform is still in its infancy; up till now, it does not respect all the criteria mentioned in order for us to build a trustworthy source of income for the European Union and all its country members (Table 1).

The evaluation of the taxes in the EU according to the above-mentioned criteria

Table 1.

Scored obtained out of 24	The EU tax proposed	Criterion: The budget		Criterion: Efficiency			Criterion: Equity		
		Sufficiency	Stability	Visibility	Small operating costs	Efficient resources allocation	Horizontal	Vertical	Real Contributions
8	Share	1	1	1	1	1	1	1	1
21	Modular VAT	3	3	3	3	2	3	2	2
17	Profit tax	2	1	2	2	3	3	2	2
21	Energy tax	3	3	2	3	3	3	2	2
16	Tobacco and alcohol excise	2	3	2	2	2	3	1	1
17	Income transfer	1	2	1	3	3	3	2	2
17	Communication Tax	1	2	2	2	1	3	3	3

22	Income tax	3	3	3	3	2	3	2	3
14	Financial transactions tax	1	1	1	3	1	2	3	2
19	Environmental tax for airlines	1	1	2	3	3	3	3	3

Source: EUROSTAT

Arguments in favor of the proposal regarding the examined criteria:

1. the criterion has not been respected and too many problems have arisen;
2. the criterion has been partially respected and some significant problems have arisen;
3. generally speaking, the criterion has been respected, but there are some problems.

We get to notice that the energy tax is one of the most stable ones, but compared to the personal income taxes and its added value, it does not bring any significant fiscal contribution to the state, without causing it problems of equity or even triggering a negative stimulation of the economic processes.

Conclusions

This paper highlights the paramount importance of using taxes as an instrument of obtaining the correct price on the spot, but also of imposing the positive effects of development, desired and backed by political will and scientific basis. These are not supported by sufficient expert working groups on taxes, aiming at a broad interdisciplinary collaboration.

It is visible that the main source of budgetary income consists of taxes on income, profit and VAT. Meanwhile, green taxes have been applied in various forms, but they could never generate more than a few cents of national budgets.

Interest generated from environmental taxes is their intentions for implementing the European Union. Romania has to ensure compatibility with the union and financial systems at the same time to have a border harmonization of taxes. It is important to prevent economic destabilization of the border regions and prevent aberrant economic processes.

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