

# IMPORTANCE OF ENVIRONMENTAL TAXES IN EUROPEAN FISCAL POLICY

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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. I 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

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## **1. 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.

## **2. The environmental taxes in the European Union**

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.

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 1<sup>st</sup> 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 cm<sup>3</sup>, 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.

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 is 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.

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.

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 CO<sub>2</sub> 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.

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 biofuels.
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 biofuels development is concerned, this is just a passing trend, as by burning them, we obtain the same amount of CO<sub>2</sub>, 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.

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).

**Table 1: The evaluation of the taxes in the EU**

Scor	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.

I 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.

### 3. 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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