

## How will environmental taxes shift the burden?

26 September 2011

Salman Shaheen in Copenhagen

**From Andean glaciers melting to African crops failing, climate change is having a dramatic effect on our world. But, as governments and companies increasingly accept the need for green fiscal reform to combat the problem, it seems climate change may soon have a dramatic effect on Europe's tax systems as well.**

One of the central themes of Green Budget Europe's annual conference, hosted by the European Environment Agency in Copenhagen, was how the burden of taxation will shift under the burgeoning ecological revolution.

While many called for taxes on labour to be reduced in favour of greater carbon and energy taxation, interesting new thinking has emerged in Switzerland where arguments are growing to replace the country's VAT with green taxes.

Ion Karagounis, managing director of the Swiss Foundation for Environmental Management, discussed the popular initiative proposed by the Green Liberal Party (GLP) on introducing energy taxes on non-renewables in place of VAT. The GLP is collecting signatures on the initiative and with sufficient support they could induce a Parliamentary vote on it.

"The proposal would completely remove VAT on all products, goods and services," said Karagounis.

Karagounis argued that the advantage of this would be that the total number of taxes in Switzerland would not increase and that consumption would not be charged directly, only its negative effects.

Shifting the tax burden in this way would also see a reduction in energy use, while energy tax, unlike VAT, does not have a complicated refund system which places a significant compliance burden on companies. Karagounis believes the overall burden of tax administration would also decrease with the abolition of VAT.

Under this system, the price of petrol would increase, as would the price of gas electricity, while solar power would decrease in cost.

Reacting to the proposals, Anders Chris Hansen, lecturer at the Institute for Environment, Social and Spatial Change at Roskilde University, argued that because VAT is only levied on domestic sales while the energy tax would also include exports, the shift could distort competition.

Anselm Gorres, president of Green Budget Europe, was highly enthusiastic about the proposals, however.

"Moving away from the philosophy of VAT is a revolutionary step," Gorres said. "We pray every day that you will be successful."

*International Tax Review*, however, questioned whether this model could easily be exported to other European countries with much higher VAT rates than Switzerland, where it stands at 8%. To replace the UK's 20% VAT or Hungary's 25% with environmental taxation would conceivably be considerably harder.

"The main problem is that the Swiss idea would be harder to work with countries with higher VAT rates," Karagounis admitted. "It wouldn't be easy to export it to other countries."

A more prominent trend among green economists, and often recommended by the OECD in its economic survey, is shifting the burden of taxation away from labour rather than consumption.

"Taxes on labour and capital have a deadweight cost, you lose welfare if you raise them," said David Gee, senior adviser on science, policy and emerging issues at the European Environment Agency.

The deadweight cost of taxation is the economic loss suffered by society because of the tax, such as reduced incentives to work, to employ or to consume.

"You don't get this with environmental tax," said Gee.

Gee noted several linked factors which are eroding conventional income tax bases. A shrinking employment force, combined with an expanding and an aging population, highlights the need for an intergenerational revenue raiser.

"Environmental tax is a tax on lifetime consumption," said Gee.

The need to shift the burden of taxation from labour to resources was shared by [Connie Hedegaard](#), EU Climate Action Commissioner.

"Tax less what you earn, tax more what you burn," said Hedegaard.

Hedegaard argued that environmental taxation stimulates companies and consumers to invest in eco-friendly products. She noted that a significant majority of EU citizens favour a shift to resource taxation.

Gorres, however, was less supportive of the idea.

"Many of us are following the wrong perception if we say we want to reduce income tax," he said. "Income tax is progressive, high earners pay more. But from the very first cent, the poorest pay VAT. If you want to improve social equity, cutting VAT is the best way. The true rival of Green taxes is VAT."

Whichever way the tax burden shifts, whether environmental taxes are increased at the expense of VAT, corporate or personal income tax, this is a field companies should pay close attention to because calls to tackle climate change by reforming Europe's tax system, from grassroots activists to the top of the Commission, are only going to get stronger.

**[Back to top](#)**