

PRESS RELEASE

The energy and environmental tax reform would raise 5.5 billion euros per year in Spain and reduce labour taxation

- *In its latest report the research center Economics for Energy, released today in Madrid, presented proposals for the renewal of the Spanish tax system in the context of a green tax reform*
- *Fiscal innovation, social and industrial acceptability of new taxes and coordination of regional taxes are the main recommendations of the report*

Madrid, 23 January, 2014. The reform of the energy-environmental tax system would raise 5,500 million euros a year in Spain, which could allow the reduction of labour taxes. This is the main conclusion of the report "Energy-Environmental Taxes in Spain", which was presented this morning at Ramón Areces Foundation (Madrid) by the research center Economics for Energy.

In this document, summarizing the research carried out during the last year by the center, there are specific proposals to address the pending tax reform in Spain in this area. The main recommendations made by the experts of Economics for Energy are: the introduction of taxes that guarantee tax collection sustainability taking into consideration the distributional constraints regarding households incomes and business competitiveness, a greater coordination among the taxes introduced by regions, and the inclusion of these measures into a comprehensive tax reform that avoids higher tax burdens on taxpayers.

Energy and environmental taxes generate significant public revenues in developed and emerging countries, which fulfill their fiscal and rent-capture purposes associated with the production and consumption of energy. Thus, the energy-environmental taxes have represented 4,6% of total tax revenue in the EU-27 and 4,1% in Spain, while the figures for China and Japan were 7,8% and 10,2%, respectively. Furthermore, these taxes are able to correct the environmental impact from the energy consumption and production, at a reduced cost. In this regard, the directors of Economics for Energy, Xavier Labandeira and Pedro Linares, have indicated today, as it is stated in the report, that it is precisely this factor what makes energy-environmental taxes not a "fiscal panacea", since these corrective effects have constraining effects on consumption and hence, the tax base of such taxes also decrease.

The analysis of these taxes for Spain concludes that the tax level is generally below the average of most European countries. In this regard, the report contains detailed simulations on the economic, environmental and distributional effects from the introduction of four tax options from the energy-environmental field, and that could be introduced as part of a green tax reform - that is, to reduce taxes on income and/or social contributions. They could also obtain revenues that could be used to reduce the public deficit, to promote renewable energy and energy efficiency, or for distributional compensations for households and firms.

Limited impact on the lowest incomes

The first option discussed in the report is a modification of energy taxation that goes in line with the EU Directive proposal under negotiation, which sets minimum rates for each energy product. Secondly, the report assesses the introduction of a new tax on nitrogen oxides (NO_x) and sulfur dioxide (SO₂) emissions. These are the main source of acid rain and other local environmental problems that have a high impact on human health. Additionally, the report contains a simulation on the application of a tax on carbon dioxide emissions (CO₂) on emitters not covered by the EU Emissions Trading System (mainly residential and transport sectors). Finally, it analyzes how to cover the cost of promoting renewable energy through taxes levied on the energy sector or on the whole economy, rather than financing public support as a surcharge in the electricity bill.

The results suggest that these taxes would raise 5.500 million euros a year in Spain, in an upper threshold, with a reduced economic cost, especially if tax revenues are used to reduce labour taxes. Furthermore, despite their variable effects on the reduction of energy consumption, high environmental benefits would be achieved whilst the distributional cost on households and productive sectors would be generally limited. The most negative distributional effects on household income would be related to measures involving increases in electricity, given that low-income households spend, in general, a larger proportion of their income on this type of energy products.

Recommendations

Regarding a future reform of the energy-environmental tax system, the report recommends first to take into account the effective achievement of the main objective of each tax, its social acceptability as well as the distributional and competitiveness constraints that may arise in certain social groups and sectors. It also advises to introduce these tax changes as part of a comprehensive and coordinated tax reform, together with other energy, environmental and fiscal policies, with a special recommendation towards a green tax reform.

On the other hand, the report underlies the desirability of achieving a greater coordination and efficiency among the different taxes that have been introduced by Spanish regions in the last few years. As it is stated in the report, these taxes are generally designed with a pure tax-revenue purpose, paying little attention to environmental objectives. This is the reason why they usually fail to define properly their own impacts and social costs and benefits. In this sense, they usually focus on facilities and technologies instead of damage and consumption, which restricts their ability to significantly change environmental behaviour. Following the experts from Economics for Energy, it would be advisable to correct these anomalies through tax harmonization, which, in any case, could involve revenue compensations to regional governments.

It is also urgent to consider fiscal innovation as a factor that ensures the revenue-raising and corrective nature of these taxes in future tax systems. In this sense, the report investigates some alternatives such as taxes on energy inefficient buildings or on the use of vehicles. One additional example would be the border tax adjustments to offset the unequal energy product tax burdens between countries, through import duties and export refunds, which could contribute to alleviate competitiveness problems in energy intensive industries.

About Economics for Energy

Economics for Energy (www.eforenergy.org and [@ecofoenergy](https://twitter.com/ecofoenergy)) is a private research centre, constituted as a non-profit association, participated by: Comillas Pontifical University, University of Vigo, Ramón Areces Foundation, Inditex, Novacaixagalicia, Banco Santander, Gas Natural Fenosa, Acciona, Alcoa, Iberdrola, and FUNCAS.

The center is directed by Xavier Labandeira, Professor of Economics at the University of Vigo, and Pedro Linares, Professor of Industrial Engineering at Comillas Pontifical University (Madrid).

The mission of Economics for Energy is to create knowledge in the field of energy economics, and to transfer this knowledge effectively to society, informing, guiding and advising public and private decision makers. Its research lines are focused on the analysis of energy demand, innovation in the energy sector, economic assessment of energy and environmental policies, economics of energy security and long-term energy and regulatory prospective.