

# Potential for Environmental Fiscal Reform in 12 Member States: the Case of Hungary

Seminar on Environmental Fiscal Reform

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# Agenda

- 1. Introduction**
- 2. Background**
- 3. Approach**
- 4. Starting Point**
- 5. Potential for Hungary**
- 6. Design Issues**
- 7. Concluding Remarks**

# 1. Introduction

- **Team effort**
  - Eunomia Research & Consulting
  - Aarhus University (Prof Skou Andersen)
  - Support from country experts (peer review)
- **Focused on environmental taxes in 12 MSs**
  - Taxes and environmentally harmful subsidies
  - 8 received CSRs in 2013 related to EFR (incl Hungary)
  - 2 had received such a recommendation in 2012
- **Tight timescale**
- **Particular focus on revenue potential**
- **Aimed to provide suggestions for change**

## 2. Background

- **Roadmap to a Resource Efficient Europe**  
*“By 2020 a major shift from taxation of labour towards environmental taxation, including through regular adjustments in real rates, will lead to a substantial increase in the share of environmental taxes in public revenues, in line with the best practice of Member States”.*
- **IMF (Christine Lagarde)**  
*“Getting the prices right, means using fiscal policy to make sure, that the harm we do is reflected in the prices we pay”*
- **Budgetary issues for many MS**
- **EEA studies**

## 2. Background

- **Hungary CSRs (2013 and 2014)**
  - Ensure a stable, more balanced and predictable corporate tax system. Streamline corporate taxation and minimise distortions of resource allocation created by sector-specific taxes, so as to foster growth and employment. Continue making taxation of labour more employment-friendly by alleviating the tax burden on low wage earners, inter alia by refining the eligibility criteria for the Job Protection Act, and by shifting taxation away to environmental taxes. Fully implement and step up the already announced measures to improve tax compliance and reduce the cost of tax compliance.
  - Ensure a stable, more balanced and streamlined tax system for companies, including by phasing out distortive sector-specific taxes. Reduce the tax wedge for low-income earners, inter alia by improving the efficiency of environmental taxes. Step up measures to improve tax compliance — in particular to reduce VAT fraud — and reduce its overall costs.

# 3. Approach

- **Stage 1: Data Gathering & Literature Review**
  - **Data on environmental taxes in each MS**
  - **‘Good Practice’:**
    - Energy – Energy Tax Directive of 2011 proposed by COM
    - Vehicles – followed 2005 proposal from COM (on passenger car related taxes) and Eurovignette Directive 2011/76/EU
    - Some adapted for PPP (purchasing power parity) / CAP (Common Agricultural Policy) support / water resource scarcity
    - Some uniform rates (packaging, aggregates, aviation)
  - **Current topics in EFR in countries**

# 3. Approach

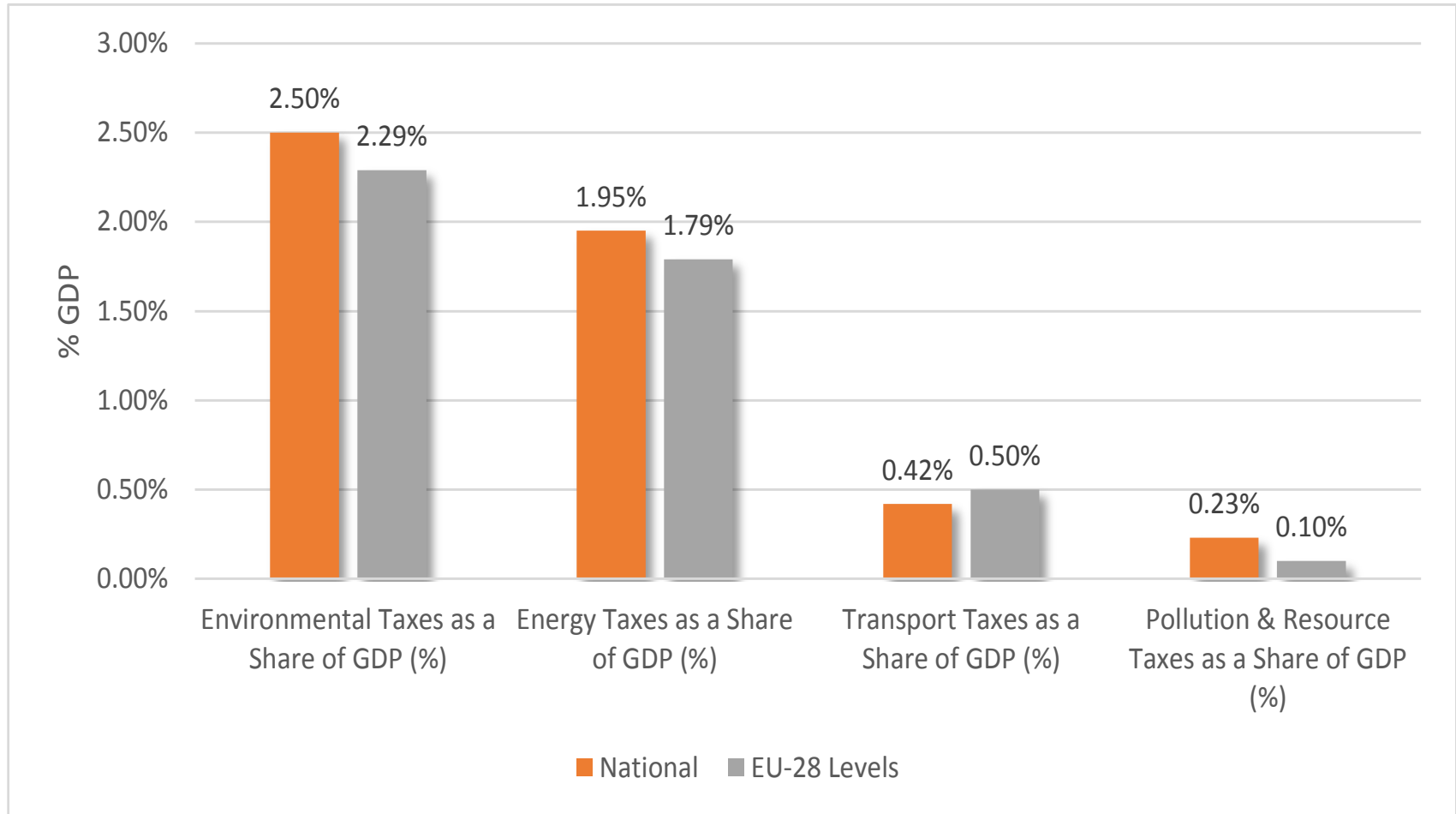
- **Stage 2: Develop Suggested Reforms**
  - Suggested changes based on mapping of Good Practice to existing situation in each MS
- **Stage 3: Model Revenue Outruns & Indirect Benefits to 2025**
  - ‘No change’ scenario
  - ‘Policy on’ scenario
  - ‘Policy on’ used as the tax base for revenue estimation
  - Difference between ‘No change’ and ‘Policy on’ used to assess environmental benefits

# 3. Approach

- **Stage 4: Final Review**
  - **Draft Final Report reviewed by MS representatives prior to the Final Report being issued**



# 4. Starting Point (2012 data)



## 4. Starting Point (based on 2012 data)

Measure	Ranking
Environmental Taxes as a Share of GDP (%)	14
Energy Taxes as a Share of GDP (%)	12
Transport Taxes (excl. transport fuels) as a Share of GDP (%)	15
Pollution & Resource Taxes as a Share of GDP (%)	7

# 5. Potential for Hungary - Overview

- **Adjust tax rates**
  - Waste water, air pollution, motor fuels, heating fuels, vehicles, waste, single use bags, water abstraction,
- **Introduce new taxes**
  - Pesticides, aggregates, aviation (passenger and freight), fertilisers
- **Abolish exemptions and harmful subsidies**

# 5. Potential for Hungary - Energy

<b>ENERGY</b> (million HUF, real 2013 terms)	<b>2016</b>	<b>2020</b>	<b>2025</b>
<b>Transport fuels</b>	5,409	26,856	42,753
<b>C&amp;I / Heating</b>	66,270	293,533	436,549
<b>Electricity</b>	0	0	0
<b><i>Sub-total Energy, million HUF</i></b>	71,679	320,388	479,302
<b><i>Sub-total Energy, % GDP</i></b>	0.23%	0.95%	1.28%

# 5. Energy - Observations

- **Motor fuels**
  - Diesel tax rate increased to equivalent level for petroleum, LPG rate increased significantly
  - Main change in revenue due to diesel duty increase
  - Tank tourism?
- **Heating Fuels**
  - Rates equalised in line with heavy fuel oil
  - Revenues linked mainly to natural gas use

# 5. Potential for Hungary - Transport

<b>TRANSPORT (excl. fuels) (million HUF, real 2013 terms)</b>	<b>2016</b>	<b>2020</b>	<b>2025</b>
<b>Vehicle Taxes</b>	24,754	132,353	146,846
<b>Passenger Aviation Tax</b>	42,940	90,028	98,167
<b>Freight Aviation Tax</b>	11.75	25.85	29.83
<b><i>Sub-total Transport, million HUF</i></b>	67,706	222,406	245,042
<b><i>Sub-total Transport, % GDP</i></b>	0.22%	0.66%	0.65%

# 5. Transport - Observations

- **Vehicles**
  - Existing taxes include
    - Registration tax (size and Euro class)
    - Circulation taxes relatively low
    - Increase and consider a more 'environmental base' (like the registration tax)
    - May also help address tank tourism (more revenue through circulation tax, less through diesel increases)
- **Aviation tax**
  - Passenger tax
    - Non-EU approx. one-third revenues
  - Freight tax

# 5. Potential for Hungary – Resources and Pollution

POLLUTION AND RESOURCES (million HUF, real 2013 terms)	2016	2020	2025
Landfill Tax - Non-haz (excl. C&D)	0	11,383	11,449
Incineration / MBT Tax	2,763	6,411	6,706
Air Pollution Tax	4,078	7,035	5,985
Water Abstraction Tax	2,253	4,427	3,828
Waste Water Tax	6,644	9,279	9,279
Pesticides Tax	21,598	45,611	51,328
Aggregates Tax	33,163	18,540	16,973
Single Use Bag Tax	3,204	996	1,100
Fertiliser Tax	9,248	18,040	18,643
<b>Sub-total Pollution &amp; Resource, million HUF</b>	<b>73,713</b>	<b>103,700</b>	<b>106,667</b>
<b>Sub-total Pollution &amp; Resources, % GDP</b>	<b>0.24%</b>	<b>0.31%</b>	<b>0.28%</b>



# 5. Resources and Pollution, Observations

- **Pesticides**
  - Data indicates high levels of use, especially insecticides
  - Banded tax could help reduce use and shift to less harmful products
- **Aggregates tax**
  - Increase recycling, and use of secondary aggregates

# 5. Potential for Hungary - EHSs

<b>SUBSIDY, (billion HUF, real 2013 terms)</b>	<b>2013</b>
<b>Exemptions from excise duties</b>	29-32
<b>Excise tax exemption for gas oil used for rail transport</b>	3.2
<b>Excise tax exemption for household usage of electricity</b>	29.83
<b>Levy paid by final electricity consumers for electricity generated from coal (“coal penny”)</b>	7
<b>Favourable treatment of company cars</b>	197
<b>Subsidies for coal mining</b>	112-169
<b>Subsidies for petroleum and natural gas</b>	90-124
<b>Household maintenance cost subsidy</b>	20
<b>Sub-total Environmentally Harmful Subsidies</b>	<b>458-551</b>
<b>Sub-total EHS, % GDP (2013)</b>	<b>1.69%</b>

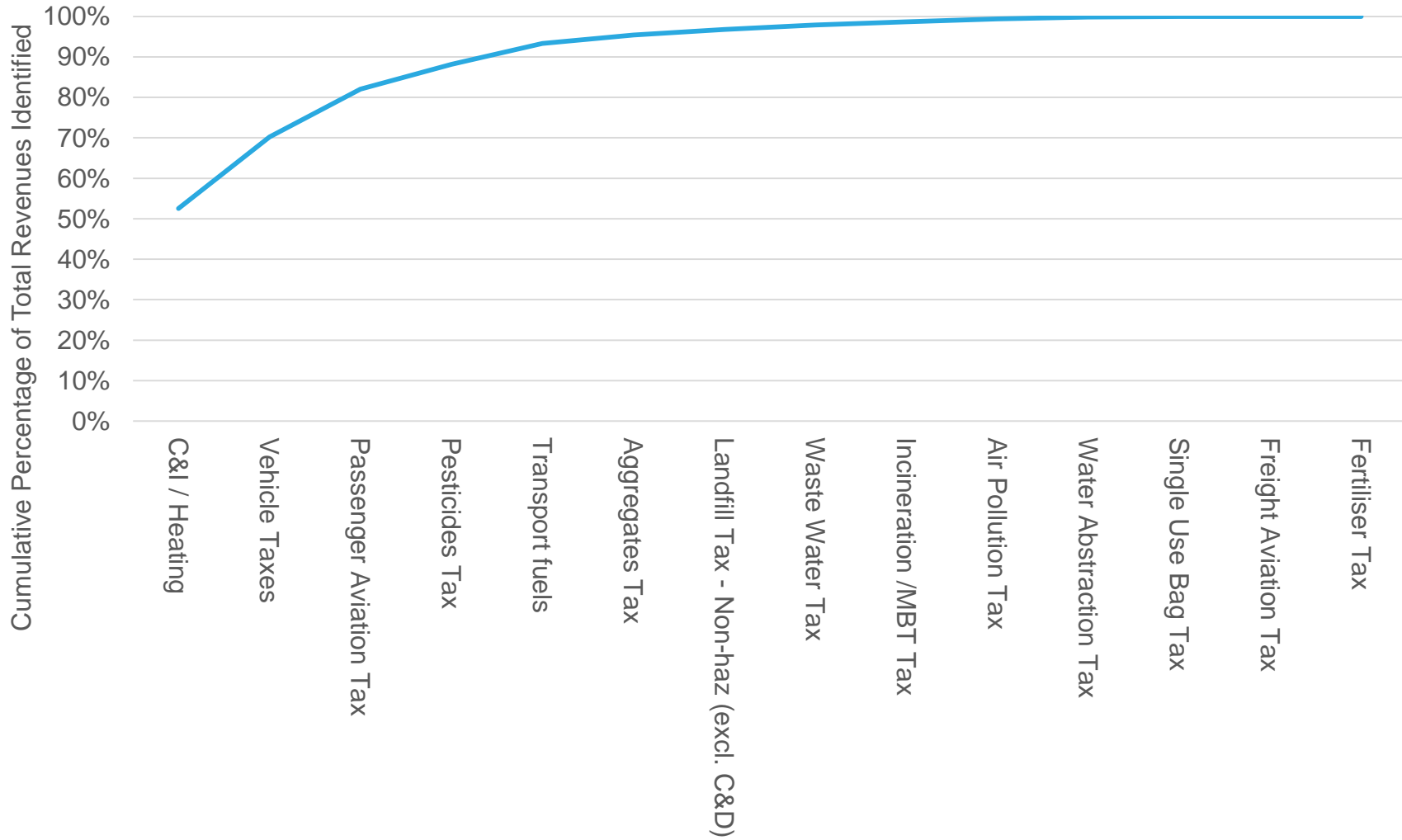
# 5. EHSs, Observations

	Segment Small	Segment Medium	Segment Large
Group A: Subsidy up to 10%	Finland, Poland	Poland	United Kingdom
Group B: Subsidy 11%-20%	Denmark, Sweden	Denmark, Finland, France, Netherlands, Sweden, United Kingdom	Denmark, Finland, France, Netherlands, Poland, Sweden
Group C: Subsidy 21%-30%	France, Luxembourg, Netherlands, Spain	Austria, Luxembourg, Slovenia, Spain	Czech R., Germany, Italy, Luxembourg, Slovenia, Spain
Group D: Subsidy more than 30%	Austria, Belgium, Czech R., Germany, Greece, Hungary, Italy, Portugal, Slovakia, Slovenia, United Kingdom	Belgium, Czech Republic, Germany, Greece, Hungary, Italy, Portugal, Slovakia	Austria, Belgium, Greece, Hungary, Portugal, Slovakia,

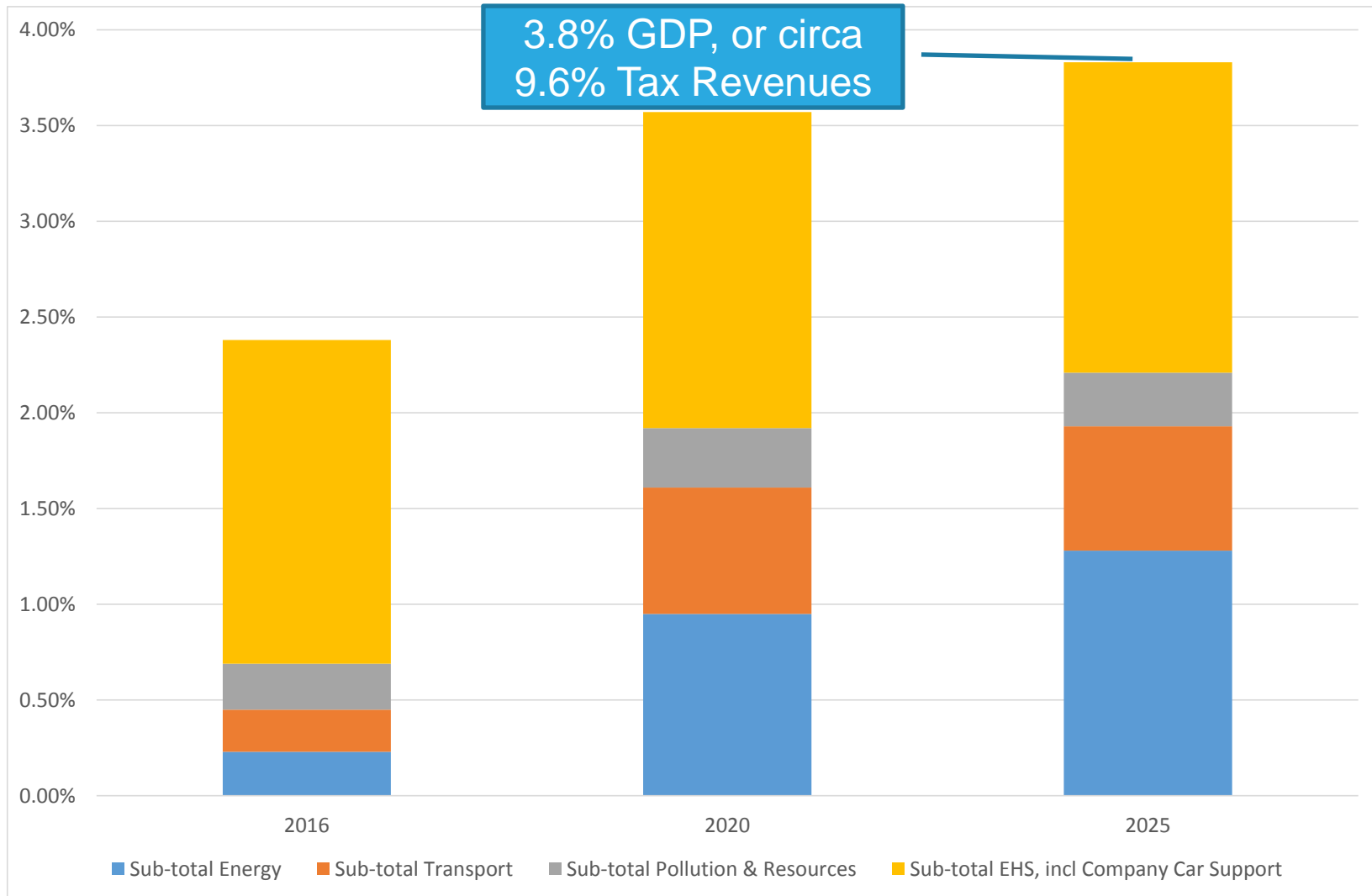
Source: Copenhagen Economics (2009) *Taxation Papers: Company Car Taxation, Report for European Commission, November 2009, p.28,*

[http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_papers/taxation\\_paper\\_22\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_22_en.pdf)

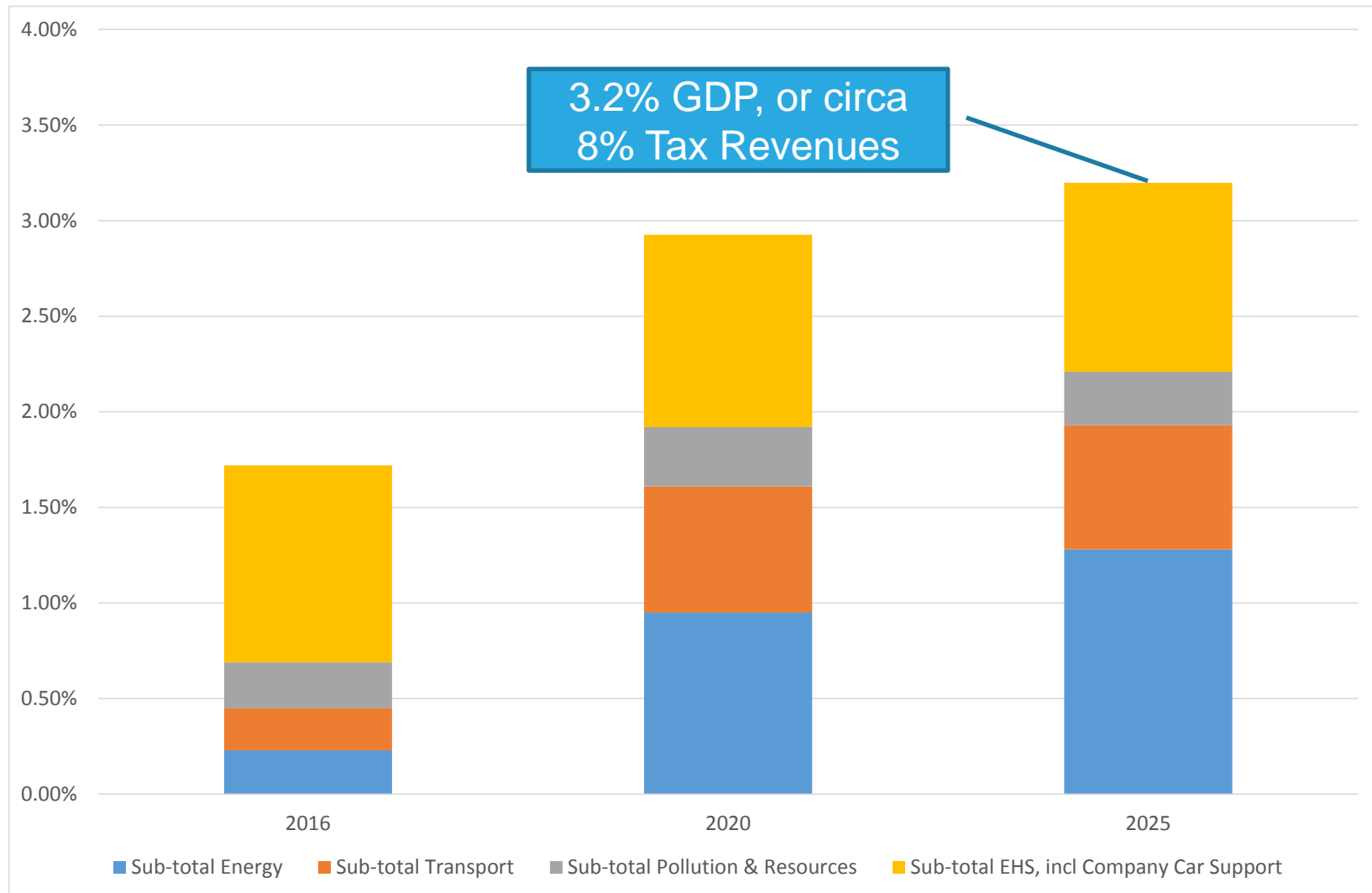
# 5. Potential for Hungary – By Tax



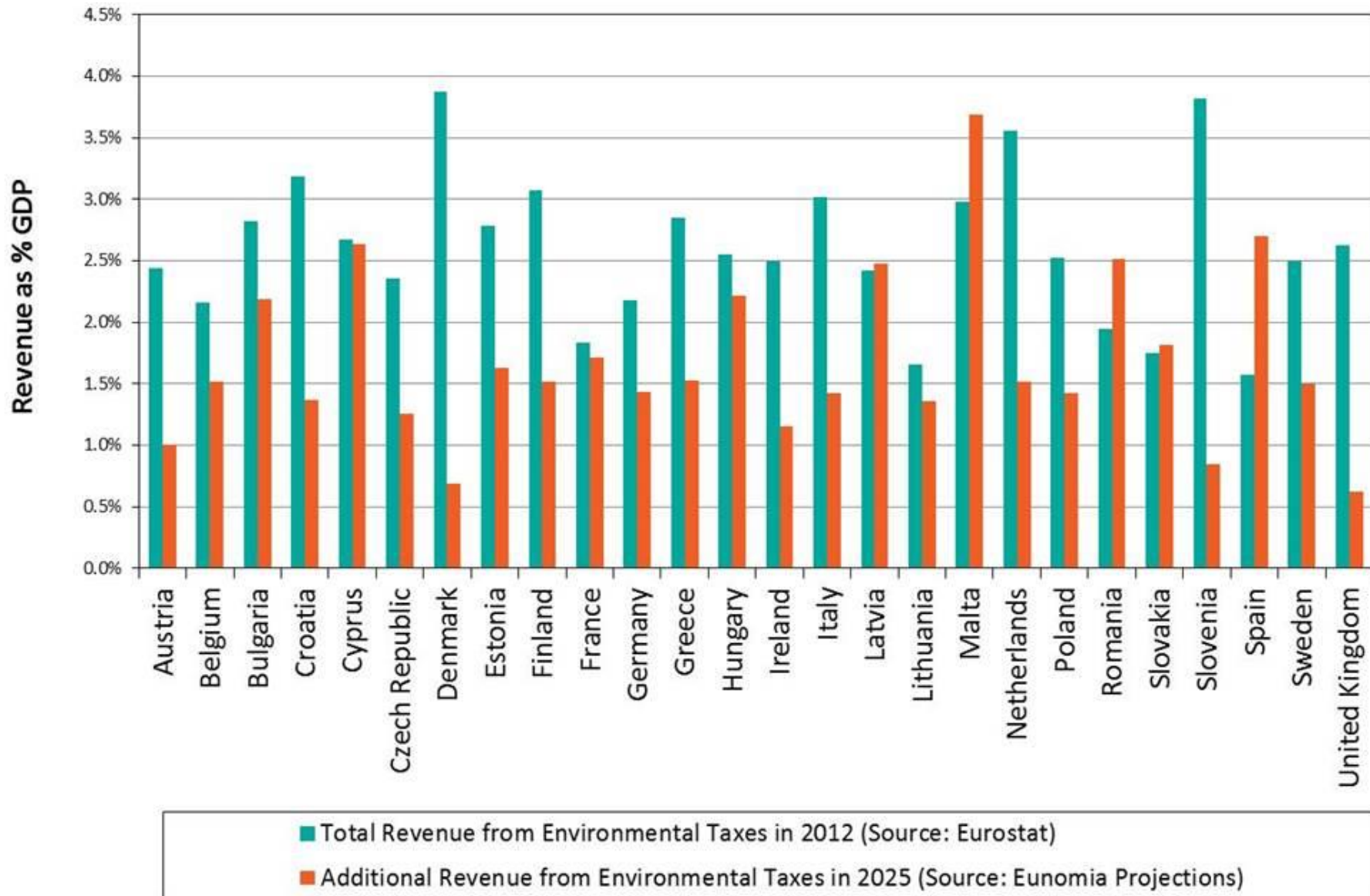
# 5. Potential for Hungary - All



# 5. The Potential for Hungary – Excl Company Cars



# Tax Revenues by 26 Member States



# 6. Design Issues

- **Trade-off across objectives**
- **Environment**
  - To be effective
- **Finance**
  - Revenues / fiscal consolidation
- **Social concerns – distributional issues**
  - Transport – tends to be progressive
  - Energy and water – green cheques for hhlds
  - VAT tends to be more regressive than energy taxation



# 7. Concluding Remarks

- **Calculations might not be perfect**
  - Data
  - Understanding the detail
- **But the potential appears to be significant**
- **May help with some fiscal objectives**
- **Further work to be done on ‘design for Hungary’**
  - Social issues (e.g. re heating)
- **Potential to shift taxes away from employment as per CSR**



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